CHINA ENERGY DEVELOPMENT HOLDINGS LIMITED
中國能源開發控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 228)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of China Energy Development Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2016 together with comparative figures for 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Revenue	*3*	**1,117**	7,399
Other income	*4*	**807**	8,408
Cost of inventories consumed		**(14)**	(5,281)
Staff costs	*6*	**(9,366)**	(11,882)
Operating lease rentals		**(4,396)**	(3,287)
Depreciation of property, plant and equipment		**(749)**	(679)
Fuel costs and utility expenses		**(172)**	(410)
Fair value loss of financial assets held for trading		**(1,434)**	(44,648)
Impairment of intangible assets	*10*	**(100,000)**	(1,057,000)
Impairment of exploration and evaluation assets	*10*	**(24,000)**	(256,000)
Gain on disposal of subsidiaries	*15*	**776**	–
Gain on reversal of impairment of loan receivable	*11*	**–**	22,783
Gain on cancellation of convertible notes	*13*	**–**	92,459
Other operating expenses		**(21,553)**	(26,572)
Finance costs	*5*	**(6,505)**	(9,209)
Loss before income tax	*6*	**(165,489)**	(1,283,919)
Income tax credits	*7*	**2,801**	2,483
Loss for the year		**(162,688)**	(1,281,436)

* *For identification purposes only*

	Notes	**2016** HK$'000	2015 HK$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(127,749)**	(166,830)
Total comprehensive income for the year		**(290,437)**	(1,448,266)
Loss attributable to:			
Owners of the Company		**(162,688)**	(1,281,436)
Non-controlling interests		**–**	–
		(162,688)	(1,281,436)
Total comprehensive income attributable to:			
Owners of the Company		**(290,437)**	(1,448,266)
Non-controlling interests		**–**	–
		(290,437)	(1,448,266)
Loss per share attributable to owners of the Company for the year	*9*		
— Basic and diluted		**HK(1.71) cents**	HK(13.48) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**3,396**	4,252
Exploration and evaluation assets		**380,420**	433,832
Intangible assets	*10*	**1,571,240**	1,792,785
Deferred tax assets		**86,373**	89,796
		2,041,429	2,320,665
Current assets			
Loan and interest receivables	*11*	**26,235**	46,803
Financial assets held for trading		**58,862**	68,442
Other receivables, deposits and prepayments		**6,798**	6,995
Amount due from a related company		**–**	9,137
Cash and bank balances		**203,719**	204,278
		295,614	335,655
Total assets		**2,337,043**	2,656,320
Current liabilities			
Trade payables	*12*	**–**	2,889
Other payables and accruals		**432,939**	463,889
Amount due to a shareholder		**40,402**	40,402
		473,341	507,180
Net current liabilities		**(177,727)**	(171,525)
Total assets less current liabilities		**1,863,702**	2,149,140

	Notes	**2016** HK$'000	2015 HK$'000
Non-current liabilities			
Convertible notes	*13*	**58,039**	52,234
Deferred tax liabilities		**–**	53
		58,039	52,287
Net Assets		**1,805,663**	2,096,853
Equity			
Share capital		**475,267**	475,267
Reserves		**1,330,396**	1,620,833
Attributable to owners of the Company		**1,805,663**	2,096,100
Non-controlling interests		**–**	753
Total equity		**1,805,663**	2,096,853

Notes:

1. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the ("**HKFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

(b) Basis of measurement and going concern assumption

(i) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

(ii) Going concern basis

During the year ended 31 December 2016, the Group has incurred a loss of HK$162,688,000 (2015: HK$1,281,436,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$177,727,000 (2015: HK$171,525,000). In addition, as detailed below, if the charge results in a conviction and the Petroleum Contract is voidable, the Group may not be able to exercise its rights under the Petroleum Contract. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company was informed that Mr. Wang Guoju was formally charged by prosecution authorities in the People's Republic of China (the "**PRC**") for undertaking illegal operations (the "**Charge**"), possibly involving allegations about improper conduct in obtaining a petroleum contract with China National Petroleum Corporation ("**CNPC**") in relation to the drilling, exploration, exploitation and production of oil and natural gas in North Kashi Block, Tarim Basin in the PRC (the "**Petroleum Contract**"). After taking into account of a legal opinion obtained by the Group from its PRC legal advisers, the directors of the Company consider that the Charge has yet to reach the judgment stage as at 31 December 2016 and up to the current date, and that the directors of the Company is not in the position to assess its possible impact on the Group's oil and gas operation and financial position. According to the legal opinion from the Group's PRC legal advisers, the Group may not be able to exercise its right under the Petroleum Contract if Mr. Wang is found guilty for improper conduct in obtaining the Petroleum Contract which might render the contract voidable. However, the directors consider that they have long-term and regular working relationship with CNPC and up to now, did not receive any notification from CNPC declaring the Petroleum Contract voidable, and so they expected that the Petroleum Contract will continue to be valid and will be executed as planned.

As at 31 December 2016, the directors are still negotiating the Gas Sales Agreements ("**GSA**") with CNPC and expect that the negotiation will complete in the year 2017. The GSA with CNPC covers a number of provisions, such as terms of the GSA, quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point, etc. The key outstanding point which the Group has yet to agree with CNPC is the unit price of gas. The natural gas pricing reform which reformed pricing mechanism on natural gas is a major reference point for the Group to negotiate the pricing terms with CNPC.

The Group has been carrying out exploration and evaluation activities at the site and working with professional parties to prepare the data and information that are required for the Overall Development Program (“**ODP**”) for government approval before full production could be started. As at 31 December 2016, the approval of ODP from National Development and Reform Commission has not yet been obtained. The delay in finalising the ODP is the major reason for the delay in government approval. Based on current information available to the directors, the directors expect that the ODP should be ready by 2018. The development and production period should start immediately after obtaining relevant government approval.

As an interim measures to strengthen the Group’s cash flow before the signing of the GSA, a preliminary natural gas sharing proposal was discussed and agreed by the joint management committee of Kashi project which comprised representatives from CNPC and the Group on 18 February 2014 (“**the Proposal**”). Based on the Proposal, the Group will receive the proposed distribution of natural gas from pilot-production which was extracted and delivered before 1 January 2014. A second natural gas sharing proposal was discussed and agreed by the joint management committee on 3 March 2015 (the “**2nd Proposal**”) which covered the natural gas from pilot-production which was extracted and delivered during the year ended 31 December 2014. Up to the date of approval of these consolidated financial statements, the Company has yet to sign another proposal with CNPC which covers the natural gas from pilot-production which was extracted and delivered during the years ended 31 December 2016 and 2015. However, the unit price in the preliminary sharing proposals is only a preliminary unit price used for preliminary sharing. The final unit price is still subject to change and could only be confirmed after the formal GSA signed. Up to the date of approval of these consolidated financial statements, the Group has not yet received the proceeds as agreed in the preliminary sharing proposals, and the directors has yet to fix the payment schedule with CNPC.

The Group’s current liabilities as at 31 December 2016 are mainly attributable to exploration and evaluation cost payables amounting to HK$392,569,000 (2015: HK$421,119,000). The directors of the Company confirm that these contractors are aware of the fact that the Company has yet to receive the proceeds from preliminary gas sharing proposals, and that the Group will be able to successfully persuade with these contractors not to insist repayment of the construction costs until CNPC has settled the proceeds as agreed in the preliminary gas sharing proposals. However, there is no certainty that these contractors will not demand repayment before the Company receive the proceeds from CNPC.

In view of the net current liabilities position and the Charge, the directors have carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) the Petroleum Contract continues to be valid; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 31 December 2017; (iii) the Group will be able to successfully persuade contractors not to insist repayment of the construction cost payables before the Company receives the proceeds from the preliminary gas sharing proposals from CNPC; and (iv) the Group will be able to raise adequate funding through equity fund raising. Taking into account the above assumptions, the directors of the Company consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2016.

As disclosed in the “Litigation” section to this announcement, in compliance with the terms attached to the Injunction Order, in order for the Company to proceed with possible equity fund raising, the Company will need to apply for leave of the Cayman Court to consent to the possible equity fund raising.

There is material uncertainty related to the outcomes of the above events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the consolidated financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their realisable value, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the same as the functional currency of the Company.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The adoption of these amendments has no material impact on the Group's consolidated financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continues to be permitted.

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases "and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on nature of business.

The Group has the following three reportable segments:

The Exploration and Production segment is engaged in the exploration, development, production and sales of natural gas.

The Sales of Food and Beverages Business segment is engaged in the sales of food and beverages.

The Money Lending Business segment is engaged in provision of loans to third parties.

The segment information provided to the Board for the reportable segments for the years ended 31 December 2016 and 2015 are as follows:

(a) Information about reportable segment revenue, profit or loss and other information

	Exploration and Production *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Money Lending Business *HK$'000*	Total *HK$'000*
For the year ended 31 December 2016				
Revenue from external customers	**–**	**14**	**1,103**	**1,117**
Reportable segment (loss)/profit	**(140,456)**	**(914)**	**1,090**	**(140,280)**
Other segment information:				
Impairment of intangible assets	**(100,000)**	**–**	**–**	**(100,000)**
Impairment of exploration and evaluation assets	**(24,000)**	**–**	**–**	**(24,000)**
Interest income	**3**	**–**	**–**	**3**
Interest expense	**(700)**	**–**	**–**	**(700)**
Depreciation of property, plant and equipment	**(503)**	**(246)**	**–**	**(749)**
Income tax credits	**2,801**	**–**	**–**	**2,801**
Deferred tax assets	**86,373**	**–**	**–**	**86,373**
Additions to non-current assets	**33**	**–**	**–**	**33**
Reportable segment assets	**2,045,126**	**15,578**	**26,235**	**2,086,939**
Reportable segment liabilities	**(429,252)**	**(3)**	**–**	**(429,255)**

	Exploration and Production *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Money Lending Business *HK$'000*	Total *HK$'000*
For the year ended 31 December 2015				
Revenue from external customers	–	5,399	2,000	7,399
Reportable segment loss	(1,323,202)	(3,857)	(53)	(1,327,112)
Other segment information:				
Impairment of intangible assets	(1,057,000)	–	–	(1,057,000)
Impairment of exploration and evaluation assets	(256,000)	–	–	(256,000)
Interest income	6	–	–	6
Depreciation of property, plant and equipment	(536)	(143)	–	(679)
Income tax credits	2,483	–	–	2,483
Deferred tax assets	89,796	–	–	89,796
Additions to non-current assets	67	1,963	–	2,030
Reportable segment assets	2,361,683	15,016	46,803	2,423,502
Reportable segment liabilities	(449,660)	(9,116)	–	(458,776)

(b) Reconciliation of reportable segment profit or loss, assets and liabilities

	2016	2015
	HK$'000	*HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(140,280)**	(1,327,112)
Other income	**22**	4,008
Fair value loss of financial assets held for trading	**(1,434)**	(44,648)
Finance costs	**(5,805)**	(9,209)
Gain on reversal of impairment of loan receivable	**–**	22,783
Gain on cancellation of convertible notes	**–**	92,459
Unallocated head office and corporate expenses	**(17,992)**	(22,200)
Loss before income tax	**(165,489)**	(1,283,919)

	2016	2015
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**2,086,939**	2,423,502
Other receivables, deposits and prepayments	**1,885**	1,610
Financial assets held for trading	**58,862**	68,442
Cash and bank balances	**189,357**	162,766
Total assets	**2,337,043**	2,656,320

	2016	2015
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**429,255**	458,776
Deferred tax liabilities	**–**	53
Convertible notes	**58,039**	52,234
Amount due to a shareholder	**40,402**	40,402
Other payables and accruals	**3,684**	8,002
Total liabilities	**531,380**	559,467

(c) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than deferred tax assets ("**Specified non-current assets**").

	Revenue from external customers		**Specified non-current assets**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**1,117**	7,399	**1,711**	1,970
PRC	**–**	–	**1,953,345**	2,228,899
	1,117	7,399	**1,955,056**	2,230,869

4. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Bank interest income	**25**	11
Exchange gain, net	**782**	4,394
Sundry income	**–**	3
Written off of other payables and accruals	**–**	4,000
	807	8,408

5. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on convertible notes (Note 13)	**5,805**	9,209
Interest on other payables	**700**	–
	6,505	9,209

6. LOSS BEFORE INCOME TAX

	2016	2015
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Auditor's remuneration	**990**	960
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	**9,289**	11,794
— Pension fund contributions	**77**	88
	9,366	11,882

7. INCOME TAX CREDITS

The amount of taxation in the consolidated statement of comprehensive income represents:

	2016	2015
	HK$'000	*HK$'000*
Current tax		
— tax for the year	**(9)**	(2)
Deferred tax		
— origination and reversal of temporary difference	**2,810**	2,485
Total income tax credits	**2,801**	2,483

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profit for the year. PRC enterprise income tax is calculated at 25% (2015: 25%) on the estimated assessable profit for the year.

The income tax credits for the year can be reconciled to the loss before income tax in the consolidated statement of comprehensive income as follows:

	2016	2015
	HK$'000	*HK$'000*
Loss before income tax	**(165,489)**	(1,283,919)
Effect of tax at Hong Kong profits tax rate of 16.5% (2015: 16.5%)	**(27,306)**	(211,847)
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(964)**	(888)
Tax effect of income not taxable for tax purposes	**(133)**	(20,441)
Tax effect of expenses not deductible for tax purposes	**25,022**	229,337
Tax effect of unused tax losses not recognised	**580**	1,356
Income tax credits for the year	**(2,801)**	(2,483)

8. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2016 (2015: Nil), nor has any dividend been proposed since the end of reporting period (2015: Nil).

9. LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	2015
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(162,688)**	(1,281,436)
	Number of shares	*Number of shares*
Weighted average number of ordinary shares in issue	**9,505,344,000**	9,505,344,000
	HK Cents	*HK Cents*
Basic loss per share	**(1.71)**	(13.48)

(b) Diluted

Diluted loss per share is the same as basic loss per share for the years ended 31 December 2016 and 2015 as the potential ordinary shares on convertible notes are anti-dilutive.

10. INTANGIBLE ASSETS

	2016 *HK$'000*	2015 *HK$'000*
Cost		
At 1 January	**2,849,785**	2,994,689
Exchange differences	**(193,206)**	(144,904)
At 31 December	**2,656,579**	2,849,785
Accumulated impairment		
At 1 January	**1,057,000**	–
Impairment loss (note)	**100,000**	1,057,000
Exchange differences	**(71,661)**	–
At 31 December	**1,085,339**	1,057,000
Carrying amount		
At 31 December	**1,571,240**	1,792,785

Note:

The intangible assets represent the interests in the Petroleum Contract which were amortised on unit of production method. No amortisation was provided for the year ended 31 December 2016 and 2015.

Impairment loss of intangible assets and exploration and evaluation assets in the amounts of HK$100,000,000 and HK$24,000,000 respectively (2015: HK$1,057,000,000 and HK$256,000,000 respectively) were recognised during the year ended 31 December 2016 as the carrying amount of the cash generating unit for the exploration and production segment exceeds its recoverable amount. The recoverable amount of the cash generating unit for the exploration and production segment was HK$1,954,000,000 (2015: HK$2,230,000,000) based on value in use calculation and by reference to the valuation report produced by an independent valuer. The impairment loss was due to delay in the production schedules of Kashi project as the approval of ODP has been delayed. The Company's management expect that the development and production period should start immediately after obtaining relevant government approval on the ODP. As a result, it is necessary and appropriate to revise the production forecast of Kashi project for the remaining contract period.

11. LOAN AND INTEREST RECEIVABLES

	2016 *HK$'000*	2015 *HK$'000*
Loan and interest receivables		
— money lending business *(note a)*	**26,235**	46,803
— others *(note b)*	**37,100**	37,100
	63,335	83,903
Less: Provision for impairment of loan receivables form others	**(37,100)**	(37,100)
	26,235	46,803

Movement in the provision for impairment of loan receivables is as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**37,100**	59,883
Reversal of impairment of loan receivable (note c)	**–**	(22,783)
At 31 December	**37,100**	37,100

Note:

(a) As at 31 December 2016, the loan receivable with principal amount of HK$26,000,000 (2015: HK$46,000,000) and related interest receivable of approximately HK$235,000 (2015: HK$803,000) was due from one (2015: two) independent third party. The loan is interest-bearing at 3% (2015: ranging from 12% to 18%) per annum.

As at 31 December 2016, loan and interest receivables in the amount of approximately HK$26,235,000 is neither past due nor impaired, which was fully settled in January 2017. As at 31 December 2015, loans receivables with principal amounts of HK$40,000,000 were less than 1 month past due, which resulted in overdue interest receivables of approximately HK$735,000 which was fully settled with relevant interest receivables in February 2016. The remaining balance was neither past due nor impaired.

(b) Loan receivable from an independent third party, Sing Pao Media Enterprises Limited ("**Sing Pao**"), which was unsecured, interest-bearing at 1% per month and repayable within 1 year have been fully impaired during the year ended 31 December 2011. The loan receivable from Sing Pao is secured by a personal guarantee of a third party.

Sing Pao's shares were listed on The Stock Exchange of Hong Kong Limited "(SEHK") but was delisted on 18 August 2015 previously. During the year ended 31 December 2015, a winding-up order was made against Sing Pao and the Group has already submitted proof of debt form to liquidator of Sing Pao on 7 January 2016. The Group is now actively considering to take appropriate action to secure the Group's position.

(c) The reversal of impairment of loan receivable of HK$22,783,000 was loan receivable from Birmingham International Holding Limited ("**Birmingham**"), a company listed on SEHK. The loan receivable from Birmingham is unsecured. During the year ended 31 December 2015, Birmingham settled the total amount of HK$22,783,000 to the Group, which was recognized as gain on reversal of impairment of loan receivable for the year ended 31 December 2015.

12. TRADE PAYABLES

An ageing analysis of trade payables of the Group based on invoice date as at 31 December 2016 and 2015 is as follows:

	2016	2015
	HK$'000	*HK$'000*
Current to 3 months	**–**	–
Over 1 year	**–**	2,889
Total trade payables	**–**	2,889

13. CONVERTIBLE NOTES

As a result of the acquisition of Totalbuild Investment Group (Hong Kong) Limited (the "**Totalbuild Transaction**"), the Company has issued convertible bonds in principal amount of HK$2,558,000,000 carrying right to convert to shares of the Company ("**Shares**") at the conversion price of HK$0.168 each ("**Tranche I Convertible Notes**") to U.K. Prolific Petroleum Group Company Limited ("**UK Prolific**"), which was nominated by the vendor in Totalbuild Transaction (the "**Vendor**") to be the allottee of such bonds. In accordance with the terms of Totalbuild Transaction, a principal amount of HK$1,279,000,000 (the "**Shortfall Notes**") out of the Tranche I Convertible Notes was deposited with an escrow agent which should only be released to the Vendor (or UK Prolific as the Vendor may direct) if the Company receives a written certificate issued by the competent evaluator confirming that the "First Designated Area" (as defined in the Company's circular dated 3 December 2010, the "**Circular**") can be evaluated on the basis of "Unrisked Economic Evaluation" (as defined in the Circular) on or before 31 May 2015.

No such written certificate was received by the Company on or before 31 May 2015. Under the terms of Totalbuild Transaction, the Shortfall Notes have been returned to the Company for cancellation. The gain of HK$92,459,000 was recorded as the result of the cancellation of Shortfall Notes during the year ended 31 December 2015.

The movement of the principal amount, liability component and equity component of the convertible notes are as follows:

	Carrying amount	
	Liability component	**Equity component**
	HK$'000	*HK$'000*
At 1 January 2015	135,484	2,005,233
Interest expenses *(Note 5)*	9,209	–
Cancellation of convertible note	(92,459)	(1,309,405)
At 31 December 2015	52,234	695,828
Interest expenses *(Note 5)*	5,805	–
At 31 December 2016	58,039	695,828

No convertible notes have been converted during the years ended 31 December 2016 and 2015.

The convertible notes with outstanding principal amount of HK$679,670,000 as at 31 December 2016 and 2015 have maturity date falling 30 years from the date of issue on 3 January 2011.

14. EVENTS AFTER THE REPORTING PERIOD

On 30 December 2016, the Group entered into a sale and purchase agreement with, amongst other parties, Karamay Hengding Properties Co., Ltd. (克拉瑪依恒鼎置業有限公司) (as vendor) and Mr. Zhang Xiucai (as a guarantor of the vendor), pursuant to which the Company has conditionally agreed to acquire an indirect controlling equity interest in Karamay Weirun Gas Co., Ltd.(克拉瑪依偉潤燃氣有限公司) (the "**Target Company**"), which is principally engaged in investment in natural gas pipeline and trading of natural gas in Xinjiang, for a total consideration of RMB32 million payable in three installments of RMB10 million, RMB6 million and RMB16 million, subject to completion of restructuring, completion of construction works and satisfaction of gas production of certain guaranteed volume, respectively. The transaction is conditional upon the satisfaction of a number of conditions precedent, one of which is the reorganisation of group structure of the Target Company. The Target Company is still in the process of reorganisation and the acquisition transaction is not completed up to the date of the approval of these consolidated financial statements. Therefore, it is not practicable at this time to provide initial accounting for the business combination and other financial information of this company until the completion of the acquisition.

15. DISPOSAL OF SUBSIDIARIES

(a) On 24 June 2016, the Group entered into a sale and purchase agreement to dispose of certain subsidiaries at a consideration of HK$50,000, the net liabilities of the subsidiaries disposed at the date of disposal were as follows:

Assets and liabilities disposed of at the date of disposal:

	HK$'000
Other receivables, deposits and prepayment	52
Amount due from a related company	9,137
Cash and bank balances	7
Trade payables	(2,889)
Other payables and accruals	(6,227)
Deferred tax liabilities	(53)
Non-controlling interests	(753)
Net liabilities disposed of:	(726)
Gain on disposal of subsidiaries	776
Consideration received	50

(b) Cash inflow arising from disposal of subsidiaries

	HK$'000
Cash consideration	50
Cash and bank balances disposed of	(7)
	43

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

1. *Scope limitation — intangible assets, exploration and evaluation assets, and deferred tax assets*

   Included in the consolidated statement of financial position as at 31 December 2016 are intangible assets, exploration and evaluation assets, and deferred tax assets with carrying amounts of HK$1,571,240,000, HK$380,420,000 and HK$86,373,000 respectively (2015: HK$1,792,785,000, HK$433,832,000 and HK$89,796,000 respectively) (collectively referred to as the "Assets"). The Assets were principally acquired by the Group through acquisition of a 100% equity interest in Totalbuild Investments Group (Hong Kong) Limited ("Totalbuild Investments") and its subsidiaries ("Totalbuild Transaction") during the year ended 31 December 2011 from a company controlled by Mr. Wang Guoju. As further disclosed in Notes 16, 17 and 19 to the consolidated financial statements, the intangible assets represent interests in a petroleum contract, which was entered between China Era Energy Power Investment (Hong Kong) Limited, a subsidiary of Totalbuild Investments, and China National Petroleum Corporation ("CNPC") in relation to the drilling, exploration, exploitation and production of oil and natural gas in North Kashi Block, Tarim Basin in the People's Republic of China ("PRC") (the "Petroleum Contract"). Exploration and evaluation assets represents costs directly associated with exploratory wells (drilling cost and others) that are capitalised and deferred tax assets related to exploration and evaluation activities.

   As at 31 December 2015 and 31 December 2016, the directors of the Company estimated the recoverable amount of the Assets. At both year-end dates, the carrying amounts of the intangible assets and exploration and evaluation assets exceeded the recoverable amount of the cash generating unit to which these assets were assigned. Accordingly, impairment losses of HK$100,000,000 and HK$24,000,000 were recognised for the year ended 31 December 2016 on intangible assets and exploration and evaluation assets respectively (2015: HK$1,057,000,000 and HK$256,000,000 respectively). In estimating the recoverable amount of the cash generating unit at both year-end dates, the directors of the Company made certain assumptions which included the future business plan of the oil and gas operations and the Petroleum Contract will be executed as planned.

As further explained in Note 32(b) to the consolidated financial statements, during the year ended 31 December 2015, the directors of the Company were informed that Mr. Wang Guoju, as the guarantor of the vendor for the Totalbuild Transaction, was formally charged by prosecution authorities in the PRC for undertaking illegal operations (the "Charge"), possibly involving allegations about improper conduct in obtaining the Petroleum Contract. In the preparation of the consolidated financial statements for the year ended 31 December 2015 and 31 December 2016, the directors of the Company have obtained a legal opinion in respect of the Charge which states that the Charge has yet to reach the judgment stage and it is not possible to estimate the outcome. The legal opinion also states that if Mr. Wang Guoju is found guilty for improper conduct in obtaining the Petroleum Contract, the Petroleum Contract may be voidable and the Group may not be able to exercise its rights under the Petroleum Contract.

After taking into account the legal opinion on the possible consequence of the Charge, the Company has commenced legal proceedings in the Grand Court of the Cayman Islands against various parties including Mr. Wang Guoju and the vendor during the year ended 31 December 2015. There is no progress in the legal proceeding in 2016. Despite of the Charge, in both the current year and in 2015, the directors of the Company consider that the Petroleum Contract will continue to be valid and will be executed on the basis that the Group has a close working relationship with CNPC and, up to the date when the directors approved the consolidated financial statements, there is no indication from CNPC regarding any potential claim or questioning the validity of the Petroleum Contract.

As at the date of this report, there is no adjudication in respect of the Charge. As a result, we were unable to obtain sufficient and appropriate audit evidence concerning (i) the validity of the Petroleum Contract and therefore as to the ownership of the intangible assets (which is one of the major assets of the Exploration and Production segment of the Group); and (ii) whether the recoverable amounts and impairment provisions of the Assets were appropriately recognised. Any adjustments to the carrying amount of the Assets found to be necessary would reduce the Group's net assets as at 31 December 2016, increase the Group's loss for the year then ended and affect the related elements making up the consolidated statement of changes in equity and the consolidated statement of cash flows. Because of the matters described above, together with the matter described in point 2 below, in relation to our audit of the consolidated financial statements for the year ended 31 December 2015, we did not express an opinion thereon.

2. *Uncertainties relating to going concern*

As at 31 December 2016, the Group had net current liabilities of HK$177,727,000 and incurred a loss of HK$162,688,000 for the year ended 31 December 2016 (2015: HK$171,525,000 and HK$1,281,436,000 respectively). In addition, as detailed in point 1 above, if the Charge results in a conviction and the Petroleum Contract is voidable, the Group may not be able to exercise its rights under the Petroleum Contract. These conditions, both in the current year and in 2015, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Notwithstanding the foregoing, the directors of the Company have prepared the consolidated financial statements on a going concern basis, the appropriateness of which largely depends upon the outcome of the underlying assumptions, as detailed in Note 3(b)(ii) to the consolidated financial statements, which in particular include (i) the Petroleum Contract continues to be valid; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 31 December 2017 (the "Proceeds"); (iii) the Group will be able to successfully persuade the contractors not to demand repayment of the construction cost payables before the Company receives the proceeds from the preliminary gas sharing proposals from CNPC; and (iv) the Group will be able to raise adequate funding through equity fund raising.

If Mr. Wang Guoju is found guilty for improper conduct in obtaining the Petroleum Contract as mentioned in point 1 above, the Petroleum Contract may become voidable. Ownership of the intangible assets and the recoverable amounts of the Assets, which are the major assets of the Exploration and Production segment of the Group, may be in doubt and the Group may not be able to carry out the business relating to exploration, development, production and sale of natural gas. In addition, the Company has not obtained any written confirmation that CNPC will pay the Proceeds before 31 December 2017 (2015: before 31 December 2016) and that the contractors will not insist on payment of the construction cost payables until the Company receives the proceeds from CNPC.

Accordingly, we were unable to determine whether it is appropriate for the directors to prepare the consolidated financial statements for the year ended 31 December 2016 on the going concern basis. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the going concern basis is appropriate. Should the going concern basis be considered inappropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

The directors of the Company also have prepared the consolidated financial statements for the year ended 31 December 2015 (the "2015 Consolidated Financial Statements") on a going concern basis with underlying assumptions similar to those adopted in 2016 as stated above. In our audit of the 2015 Consolidated Financial Statements, we were also unable to obtain sufficient appropriate audit evidence concerning the validity of the Petroleum Contract and the viability of other assumptions. Together with the matter detailed in point 1 above, we did not express an opinion on the consolidated financial statements for the year ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the year, the Group recorded a revenue in the amount of approximately HK$1,117,000 (2015: HK$7,399,000), representing a decrease of 85% as compared to the last year. The Group commenced its money lending segment last year and generated revenue of HK$1,103,000 which represented 99% of the revenue for current year. There was a decrease of 99% of revenue generated from the sales of food and beverages business segment and the exploration and production segment did not generate any revenue to the Group.

The Group recorded a loss attributable to the owners of the Company in the amount of approximately HK$162,688,000, compared to a loss of approximately HK$1,281,436,000 during last year. The decrease in loss was mainly due to the decrease of 91% and 91% of impairment loss of (1) intangible assets and (2) exploration and evaluation assets of the Group's exploration and production segment in the amounts of HK$100,000,000 (2015: HK$1,057,000,000) and HK$24,000,000 (2015: HK$256,000,000) respectively. Loss per share attributable to the owners of the Company was 1.71 HK cents (2015: 13.48 HK cents).

Business Review

Exploration and Production Segment

The Group's wholly-owned subsidiary, Totalbuild Investments Group (Hong Kong) Limited and its subsidiaries ("**Totalbuild Investments Group**") entered into petroleum contract with CNPC for the drilling, exploration, exploitation and production of oil and/or natural gas within the specified site located in North Kashi Block, Tarim Basin, Xinjiang, PRC (the "**Petroleum Contract**"). The term of the Petroleum Contract is for a term of 30 years commencing 1 June 2009.

In June 2015, the Group commenced legal actions against the vendor of Totalbuild Investments Group, as further disclosed in the section headed "**Litigation**" in this announcement.

Under the Petroleum Contract, the Group shall apply its appropriate and advanced technology and management expertise and assign its competent experts to perform exploration, development, and production of natural gas and/or oil within the site. Under the Petroleum Contract, in the event that any oil field and/or gas field is discovered within the site, the development costs shall be borne by CNPC and the Group in the proportion of 51% and 49%, respectively.

According to the Petroleum Contract, the exploration period covers 6 years. The managements have devoted much of its resources during the period in exploration and research studies.

The development period of any oil/gas field will start from the date of the completion of the Overall Development Program ("**ODP**"). ODP is a document that is required to be approved by the relevant government authorities before the development can commence. ODP comprises a formal development engineering plan, backed up by survey results and relevant studies, together with a full economic analysis and time schedule of the development operations. However, there was delay in finalising the ODP documentation. The production period should start immediately after obtaining relevant government approval on ODP.

Despite numerous reminders and enormous efforts of the management during the period under review, up to the date of this announcement, no GSA has been signed with CNPC, and the ODP which signifies the transition from exploration period into the development period of Kashi Project is still preparing. The required reserve report on the cooperation site has been submitted to PRC government and waiting for approval. In March 2015, the Group has issued formal application to CNPC to apply for a two-year extension of the exploration period of Kashi Project beyond the original headline of 31 May 2015, as the exploration efforts in the cooperation site has not been completed. As of the date of this announcement, the Group has not received formal notice of extension from CNPC. The Group will continue to use its best efforts to make progress on Kashi Project and will seek legal advice with the view to upholding its right if and when appropriate.

Since the acquisition of Totalbuild Investments Group, pilot productions were carried out at the site. 180,930,000 (2015: 142,820,000) cubic meters of gas was extracted during the year. The information obtained from research and pilot production will form part of the information to be contained in the application of the ODP. The gas so produced during the pilot productions has been sold to the local customers near the site area.

As at 31 December 2016, the acquired oil/gas field has approximately estimated contingent resources of 47.4 (31 December 2015: 47.4) thousand barrels ("**Mbbl**") of oil and 11,544 (2015: 11,633) million cubic metres ("**MMm3**") of natural gas (based on Group's 49% net entitlement interests in Petroleum Contract). These contingent resources are quantities of oil and gas estimated, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. The risks associated with these contingent resources included the following matters: (i) there is no definitive GSA or accurate information on likely future sales prices; (ii) the future overall development program is still to be developed and approved; and (iii) the field is situated in a remote location.

During the year, the exploration and production segment did not contribute any revenue and the Group is still negotiating with CNPC regarding the price term. The segment loss before income tax was approximately HK$140,456,000 (2015: HK$1,323,202,000). Impairment losses on intangible assets and exploration and evaluation assets in the amounts of HK$100,000,000 (2015: HK$1,057,000,000) and HK$24,000,000 (2015: HK$256,000,000) respectively were recognised during the current year as the carrying amounts of the intangible assets and exploration and evaluation assets exceeds the recoverable amount. The recoverable amount was determined with reference to the valuation report produced by an independent valuer. No development and production activity was carried out under the Petroleum Contract. The pilot-production is not regarded as production activities as the Petroleum Contract is still in its exploration stage and ODP is yet to be approved. The results of operations in exploration and production segment and costs incurred for exploration and evaluation assets acquisition and exploration activities are shown as below:

(a) Results of operations in exploration and production segment

	2016	2015
	HK$'000	*HK$'000*
Net sales to customers	**–**	–
Other income	**785**	4,400
Operating expenses	**(16,038)**	(14,066)
Depreciation	**(503)**	(536)
Impairment of intangible assets	**(100,000)**	(1,057,000)
Impairment of exploration and evaluation assets	**(24,000)**	(256,000)
Finance cost	**(700)**	–
Results of operations before income tax expenses	**(140,456)**	(1,323,202)

(b) Costs incurred for exploration and evaluation assets acquisitions and exploration activities

	2016	2015
	HK$'000	*HK$'000*
Exploration cost	**–**	–

Information on oil/gas field and gross contingent resources

Under the Petroleum Contract, the exploration period covers 6 years commencing from 1 June 2009. The Group has issued formal application to CNPC to apply for a two-year extension of the exploration period of the Petroleum Contract beyond the original headline of 31 May 2015, as the exploration efforts in the cooperation site has not been completed. As at 31 December 2016, the Group has 5 exploration wells and the carrying amounts of the exploration and evaluation assets were approximately HK$380,420,000. Since the acquisition of Totalbuild Investments Group, the exploration activities were carried out under the Petroleum Contract. During the year, the Group incurred operating expenses of approximately HK$16,038,000 and 180,930,000 cubic meters natural gas was extracted through the pilot-production. No development and production activity was carried out under the Petroleum Contract, the pilot production is not regarded as production activities as the Petroleum Contract is still in its exploration stage and the ODP has yet to be approved.

The reserve evaluation was conducted in accordance with Petroleum Resources Management system, an internationally recognised reserve standards and guideline, the details of information were set out in the Appendix V of Competent Person's Report to the Company's circular dated 3 December 2010. There is no material change of assumption as compared with previous disclosed in the Competent Person's Report, except for the delay in the production schedules due to the delay in the ODP finalisation and approval and the signing of the GSA.

The following table summarised the estimates of Group's 49% net entitlement interests of the gross contingent resources in the Petroleum Contract:

	Oil	**Natural gas**
	(Mbbl)	*(MMm³)*
As at 31 December 2015 and 1 January 2016	47.4	11,633
Pilot-production activity during the year	–	(89)
At 31 December 2016	47.4	11,544

Sales of Food and Beverages Business

During the year, the Group recorded a revenue from the sales of food and beverages business of approximately HK$14,000 (2015: HK$5,399,000), representing a decrease of 99% as compared to the last year. The segment loss before tax expenses was approximately HK$914,000 (2015: HK$3,857,000). The significant decrease in revenue during the year was mainly due to the Group's intention to reduce reliance on the sales of food and beverage. We will continue to keep track of the economic environment and review the future allocation of resources as and when required.

Money Lending Business

During the year, the Group continue to generate revenue from the money lending business operated by its indirect wholly-owned subsidiary, Zhong Neng Finance Ltd., a licensed money lender under the Money Lenders Ordinance (Cap. 163, Laws of Hong Kong). As at 31 December 2016, the loan and interest receivables were approximately HK$26,235,000 (2015: HK$46,803,000). The Group recorded a revenue from the money lending business of approximately HK$1,103,000 (2015: HK$2,000,000) and the segment profit before income tax was approximately HK$1,090,000 (2015: loss before income tax was approximately HK$53,000). The Group continued to adopt a stringent credit policy to mitigate the credit risk arising from the money lending business, leading to a decrease in the revenue of 44% when compared to last year.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2016, the Group had no outstanding interest bearing borrowings (2015: Nil). The cash and cash equivalents of the Group were approximately HK$203,719,000 (2015: HK$204,278,000). The Group's current ratio (current assets to current liabilities) was approximately 62.5% (2015: 66.2%). The ratio of total liabilities to total assets of the Group was approximately 22.7% (2015: 21.1%).

As at 31 December 2016, the convertible notes outstanding principal amount of HK$679,670,000 due in 2041 not carrying any interest with right to convert the convertible notes into ordinary shares of the Company. The conversion price is HK$0.168 per share (subject to adjustments) and a maximum number of 4,045,654,761 shares may be allotted and issued upon exercise of the conversion rights attached to the convertible notes in full. During the year, no convertible note was converted to ordinary shares of the Company.

In June 2015, the Group commenced legal actions against the holder(s) of the convertible notes, as further disclosed in the section headed "Litigation" in this announcement.

Charge of Assets

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2016 and 2015.

Exchange Exposure

The Group mainly operates in Hong Kong and PRC and the exposure in exchange rate risks mainly arises from fluctuations in the HK dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. The policy of the Group for its operating entities operates in their corresponding local currencies to minimize currency risks. The Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimizing exchange rate risks during the year. However, management will monitor foreign currency exposure and will consider hedging significant foreign currency exposure if necessary.

Capital Commitments

The Group had capital commitments of approximately HK$131,677,000 and HK$115,500,000 as at 31 December 2016 (2015: HK$141,254,000 and HK$123,900,000) in respect of exploration and evaluation expenditure and capital contributions in a subsidiary respectively.

Litigation

Reference is made to the announcements (the "**Announcements**") of Company dated 7 June 2015, 17 June 2015, 25 June 2015, 29 June 2015 and 18 August 2015 in relation to, inter alia, the commencement of a litigation in relation to the acquisition of 100% equity interest in "Totalbuild Transaction" in 2011 against the Vendor, Mr. Wang Guoju, UK Prolific Petroleum Group Company Limited "UK Prolific", Mr. Wang Hanning and other parties (the "**Defendants**").

As disclosed in the Announcements, the Board was informed that Mr. Wang Guoju was formally charged by prosecution authorities in China for (inter alia) undertaking illegal operations (the "**Charge**"), possibly involving allegations about improper conduct in obtaining of the Petroleum Contract. After taking legal advice as to the remedies which should be sought by the Company to uphold its right, on 17 June 2015 (Cayman Islands time), the Company commenced legal proceedings in the Grand Court of the Cayman Islands (the "**Litigation**") against various parties including Totalbuild Investments Holdings Group Limited (the Vendor of Totalbuild Transaction), Mr. Wang Guoju (the guarantor of the Vendor), UK Prolific (the allottee of Tranche I Convertible Bonds as nominated by the Vendor) and Mr. Wang Hanning (owner and controller of UK Prolific), whereby the Company seeks, inter alia, a declaration that the acquisition agreement in relation to Totalbuild Transaction (the "**Totalbuild Agreement**") is void or, alternatively, the Company is allowed to rescind the Totalbuild Agreement, and other remedies including damages, on the basis that, inter alia, the Charge casts serious doubt over: (a) the warranties given by the Vendor and Mr. Wang Guoju in relation to the Petroleum Contract upon which the Company relied in entering into the Totalbuild Transaction; and (b) the validity of the Totalbuild Agreement by which the Company issued Tranche I Convertible Bonds to UK Prolific, and as a consequence UK Prolific's entitlement to any shareholding in the Company.

On 23 June 2015 (Cayman Islands time), upon the Company's application, the Grand Court of the Cayman Islands made an injunction order (the "**Injunction Order**") that until the determination of the Company's Writ of Summons relating to the Litigation or further order of the Court (inter alia):

1. The Defendants must not (a) dispose of, transfer, deal in, or diminish the value of, or (b) exercise any rights or powers (including but not limited to voting rights in general and/or extraordinary meetings) in respect of, and/or (c) enter into any agreement to effect the above, in relation to 1.86 billion issued shares in the Company, being part of the consideration for the Totalbuild Agreement; and

2. The Defendants must not complete and/or procure the conversion of the convertible notes representing 13,366,190,476 underlying shares in the Company, being part of the consideration for the Totalbuild Agreement.

On 13 August 2015 (Cayman Islands time), upon the Company's undertaking not to allot, issue or deal with additional shares or to make or grant offers, agreements or options in relation to the issuance of any additional shares or securities (including any derivative interests in the shares) without leave of the Court until the conclusion of the present trial relating to the Litigation or further order, the Grand Court of the Cayman Islands made an order that the Injunction Order be continued until conclusion of the present trial relating to the Litigation or further order, and the Company's costs of and occasioned by UK Prolific's Summons be paid by UK Prolific on the standard basis.

As the Litigation has yet to reach the trial stage, the Board is not in the position to assess the possible impact on the Group's oil and gas operation and financial position. Taking into account the legal opinion, the Board consider that the Petroleum Contract may be voidable and the Group may not be able to exercise its right under the Petroleum Contract if Mr. Wang Guoju is charged improper conduct in obtaining the Petroleum Contract which might render the contract voidable. The Board will update shareholders and the public on any material development of the Litigation by way of announcement if and when appropriate.

Contingent Liabilities

Save as any contingent liabilities which may arise from any of the litigations disclosed in this announcement, the Group had no other material contingent liabilities as at 31 December 2016.

Employee Information

As at 31 December 2016, the Group had a total workforce of 18 (2015: 28). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Prospects

Natural Resource Industries

As the Charge in relation to the Kashi Project has yet to reach the judgment stage, the Company will continue to closely monitor the status of the project and do what we can to uphold and protect the Company's best interest, our investment costs and our expectation on the return of the project.

Sales of Food and Beverages Business

The management has taken a cautious approach to manage the operations of the food and beverages segment. The Group will evaluate the value and performance of this segment from time to time, and continue to keep track of the economic environment and review the future allocation of resources as and when required.

Money Lending Business

The Group will continue to promote its money lending business and expand its loan portfolio and customer base to develop its services platform which provides liquidity for customers. We will further develop this business by achieving healthy loan growth in corporate and individual segments, while at the same time maintaining strong credit quality and credit risk management to achieve a stable income stream for the Group.

Other new businesses

The Group has been seeking investment opportunities from time to time to broaden the Group's sources of income. During the year under review, the Group has signed an agreement to acquire a natural gas pipeline business in Karamay, Xinjiang, the PRC. The Board considers that such diversification can reduce the Group's reliance on its oil and gas and food and beverages segments.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain good corporate governance standard and procedures.

The Stock Exchange has promulgated the code provisions on Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "**CG Code**"). Throughout the year ended 31 December 2016, the Group has complied itself with all CG Code and Report except for the following:

a. In relation to A.2.1 of the CG Code, the roles of chairman and Chief Executive Officer (the "**CEO**") should be separate and should not be performed by the same individual and the division of responsibilities between the chairman and CEO should be clearly established and set out in writing. During the year, Mr. Zhao Guoqiang is the CEO of the Company. On 25 January 2016, Mr. Wang Yongguang was appointed as the chairman of the Company but he subsequently resigned as the director and chairman of the Company on 27 July 2016. Following the resignation of Mr. Wang Yongguang, the position of chairman is vacated and the Board intends to identify satisfiable candidate to fill the vacancy.

b. In relation to E.1.2 of the CG Code, the chairman of the Board should attend the AGM. During the year 2015, the Company's 2015 AGM held on 26 January 2016 and the Company's AGM held on 26 January 2016 were attended by the Company's then-incumbent chairman, Mr. Wang Yongguang. Following the resignation of Mr. Wang, the position of chairman is vacated and the Board intends to identify satisfiable candidate to fill the vacancy.

c. In relation to A.4.1 and A.4.2 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. For the year under review, all independent non-executive directors of the Company have not been appointed for a specific term but they are subject to retirement by rotation in accordance with the Company's articles of association.

d. In relation to I(f) of the CG Code, the board shall comprise at least three independent non-executive directors. Following the re-designation of Mr. Wang Yongguang from an independent non-executive director to a non-executive director on 25 January 2016, the number of independent non-executive directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules. On 26 January 2016, Mr. Fu Wing Kwok, Ewing retired as an independent non-executive director, and Mr. Cheng Chun Ying and Mr. Lee Man Tai were appointed as independent non- executive directors. Following the appointments of Mr. Cheng Chun Ying and Mr. Lee Man Tai, the Company has fulfilled the requirement of minimum number of independent non-executive directors under Rule 3.10(1) of the Listing Rules.

e. As announced by the Company on 25 January 2016, Mr. Wang Yongguang was re-designated as a non-executive director. Due to Mr. Wang Yongguang's re-designation, (i) the audit committee of the Company did not have a majority membership comprising independent non-executive directors as required under Rule 3.21 of the Listing Rules; and (ii) the remuneration committee of the Company did not have a majority membership comprising independent non-executive directors as required under Rule 3.25 of the Listing Rules. Following the appointments of Mr. Cheng Chun Ying and Mr. Lee Man Tai as independent non-executive directors and members of the audit committee and the remuneration committee of the Company on 26 January 2016, the Company had fulfilled (i) the requirement of the audit committee of the Company comprising a majority of independent non-executive directors as required under Rule 3.21 of the Listing Rules; and (ii) the requirement of the remuneration committee of the Company comprising a majority of independent non-executive directors as required under Rule 3.25 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own Code of conduct regarding securities transactions by the directors of the Company. All incumbent directors have confirmed that they have complied with the required standard set out in the Model Code through the year under review.

AUDIT COMMITTEE

During the year until the date of this announcement, members of the Audit Committee included:

Mr. Lee Man Tai (appointed on 26 January 2016)
Dr. Gu Quan Rong (appointed on 16 June 2015)
Mr. Zong Ketao (appointed on 21 July 2015)
Mr. Cheung Chun Ying (appointed on 26 January 2016)
Mr. Wang Yongguang (appointed on 23 November 2012, re-designated on 25 January 2016 and resigned on 27 July 2016)

As at the date of this announcement, the audit committee comprises one non-executive director and three independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's audited consolidated financial statements for year ended 31 December 2016 have been reviewed by the audit committee, who is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the announcement of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the announcement.

PUBLICATION OF ANNUAL RESULTS AND 2016 ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cnenergy.com.hk). The 2016 annual report of the Company for the year ended 31 December 2016 will be dispatched to shareholders and made available on the above websites in due course.

FORWARD LOOKING STATEMENTS

There is no assurance that any forward-looking statements regarding the business development of the Group set out in this announcement or any of the matters set out therein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place undue reliance on the information disclosed herein. Any holder of securities or potential investor of the Company who is in doubt is advised to seek advice form professional advisors.

By order of the Board
China Energy Development Holdings Limited
Zhao Guoqiang
Chief Executive Officer & Executive Director

Hong Kong, 23 March 2017

As at the date of this announcement, the Board comprises Mr. Zhao Guoqiang (Chief Executive Officer and alternate director to Dr. Gu Quan Rong) as executive director; Dr. Gu Quan Rong as non-executive director; and Mr. Zong Ketao, Mr. Cheng Chun Ying and Mr. Lee Man Tai as independent non-executive directors.