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 2017

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 2017 together with comparative figures for 2016 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	3	**13,039**	1,117
Cost of inventories sold		**(6,793)**	(14)
Other income	4	**399**	807
Staff costs	6	**(11,299)**	(9,366)
Operating lease rentals		**(4,524)**	(4,396)
Depreciation of property, plant and equipment		**(2,761)**	(749)
Fuel costs and utility expenses		**(151)**	(172)
Fair value gain/(loss) of financial assets held for trading		**15,678**	(1,434)
Impairment of intangible assets	10	**(162,000)**	(100,000)
Impairment of exploration and evaluation assets	10	**(39,000)**	(24,000)
Impairment of goodwill		**(6,000)**	–
Gain on disposal of subsidiaries		**–**	776
Other operating expenses		**(31,213)**	(21,553)
Finance costs	5	**(7,002)**	(6,505)
Loss before income tax	6	**(241,627)**	(165,489)
Income tax credits	7	**6,774**	2,801
Loss for the year		**(234,853)**	(162,688)

* *For identification purposes only*

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations attributable to:			
Owners of the Company		**119,307**	(127,749)
Non-controlling interests		**(761)**	–
		118,546	(127,749)
Total comprehensive income for the year		**(116,307)**	(290,437)
(Loss)/profit attributable to:			
Owners of the Company		**(235,510)**	(162,688)
Non-controlling interests		**657**	–
		(234,853)	(162,688)
Total comprehensive income attributable to:			
Owners of the Company		**(116,203)**	(290,437)
Non-controlling interests		**(104)**	–
		(116,307)	(290,437)
Loss per share attributable to owners of the Company for the year	*9*		
— Basic and diluted		**HK(2.48) cents**	HK(1.71) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**31,178**	3,396
Exploration and evaluation assets		**369,087**	380,420
Intangible assets	*10*	**1,523,512**	1,571,240
Goodwill		**1,151**	–
Deferred tax assets		**99,673**	86,373
		2,024,601	2,041,429
Current assets			
Accounts receivables	*11*	**–**	26,235
Financial assets held for trading		**74,540**	58,862
Other receivables, deposits and prepayments		**78,412**	6,798
Cash and bank balances		**171,926**	203,719
		324,878	295,614
Total assets		**2,349,479**	2,337,043
Current liabilities			
Other payables and accruals		**536,902**	432,939
Amount due to a shareholder		**40,626**	40,402
Amount due to non-controlling interests		**6,222**	–
		583,750	473,341
Net current liabilities		**(258,872)**	(177,727)
Total assets less current liabilities		**1,765,729**	1,863,702

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Non-current liabilities			
Convertible notes		**64,489**	58,039
		64,489	58,039
Net Assets		**1,701,240**	1,805,663
Equity			
Share capital		**475,267**	475,267
Reserves		**1,214,193**	1,330,396
Attributable to owners of the Company		**1,689,460**	1,805,663
Non-controlling interests		**11,780**	–
Total equity		**1,701,240**	1,805,663

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 2017, the Group has incurred a loss of HK$234,853,000 (2016: HK$162,688,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$258,872,000 (2016: HK$177,727,000). This condition indicates 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.

As at 31 December 2017, the directors are still negotiating the Gas Sales Agreements ("**GSA**") with China National Petroleum Corporation ("**CNPC**") and expect that the negotiation will complete in the year 2018. 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 2017, 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 after 31 December 2014. 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 have yet to fix the payment schedule with CNPC.

The Group's current liabilities as at 31 December 2017 are mainly attributable to exploration and evaluation cost payables amounting to HK$421,119,000 (2016: HK$392,569,000). 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 these contractors not to insist on 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, 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 ODP will be approved before 31 December 2018 and the development stage and commercial production of the natural gas field will be commenced after obtaining relevant approval; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 31 December 2018; (iii) the Group will be able to successfully persuade contractors not to insist on 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 bank borrowings. 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 2017.

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")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group, but do not have material impact on the consolidated financial statements other than additional disclosure made in the consolidated financial statements.

The HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the year ended 31 December 2017 and which have not been early adopted in the 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, Production and Distribution of Natural Gas segment is engaged in the exploration, development and production of natural gas and the usage of pipeline for distribution 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 2017 and 2016 are as follows:

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

	Exploration, Production and Distribution of Natural Gas *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Money Lending Business *HK$'000*	Total *HK$'000*
For the year ended 31 December 2017				
Revenue from external customers	**12,630**	**–**	**409**	**13,039**
Reportable segment (loss)/profit before income tax	**(216,136)**	**(1,939)**	**207**	**(217,868)**
Other segment information:				
Impairment of intangible assets	**(162,000)**	**–**	**–**	**(162,000)**
Impairment of exploration and evaluation assets	**(39,000)**	**–**	**–**	**(39,000)**
Impairment of goodwill	**(6,000)**	**–**	**–**	**(6,000)**
Interest income	**5**	**16**	**–**	**21**
Interest expense	**(552)**	**–**	**–**	**(552)**
Depreciation of property, plant and equipment	**(2,485)**	**(245)**	**–**	**(2,730)**
Income tax credits	**6,774**	**–**	**–**	**6,774**
Deferred tax assets	**99,673**	**–**	**–**	**99,673**
Additions to non-current assets	**630**	**–**	**–**	**630**
Reportable segment assets	**2,041,921**	**31,924**	**20**	**2,073,865**
Reportable segment liabilities	**(506,373)**	**(46)**	**–**	**(506,419)**

	Exploration, Production and Distribution of Natural Gas *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 before income tax	(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)

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

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(217,868)**	(140,280)
Other income	**236**	22
Fair value gain/(loss) of financial assets held for trading	**15,678**	(1,434)
Finance costs	**(6,450)**	(5,805)
Unallocated head office and corporate expenses	**(33,223)**	(17,992)
Loss before income tax	**(241,627)**	(165,489)

	2017	2016
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**2,073,865**	2,086,939
Other receivables, deposits and prepayments	**64,553**	1,885
Financial assets held for trading	**74,540**	58,862
Cash and bank balances	**136,521**	189,357
Total assets	**2,349,479**	2,337,043

	2017	2016
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**506,419**	429,255
Convertible notes	**64,489**	58,039
Amount due to a shareholder	**40,402**	40,402
Other payables and accruals	**36,929**	3,684
Total liabilities	**648,239**	531,380

(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**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**409**	1,117	**2,063**	1,711
PRC	**12,630**	–	**1,922,865**	1,953,345
	13,039	1,117	**1,924,928**	1,955,056

4. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Bank interest income	**25**	25
Exchange gain, net	**49**	782
Dividend income from financial assets held for trading	**325**	–
	399	807

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on convertible notes	**6,450**	5,805
Interest on other payables	**552**	700
	7,002	6,505

6. LOSS BEFORE INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Auditor's remuneration	**1,070**	990
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	**11,238**	9,289
— Pension fund contributions	**61**	77
	11,299	9,366

7. INCOME TAX CREDITS

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

	2017	2016
	HK$'000	*HK$'000*
Current tax		
— tax for the year	**(6)**	(9)
Deferred tax		
— origination and reversal of temporary difference	**6,780**	2,810
Total income tax credits	**6,774**	2,801

No provision for Hong Kong profits tax has been made as the Group had unused tax losses brought forward for both periods. No provision for enterprise income tax in the People's Republic of China (the "PRC") as the Group utilised the tax losses carried forward.

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:

	2017	2016
	HK$'000	*HK$'000*
Loss before income tax	**(241,627)**	(165,489)
Effect of tax at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	**(39,868)**	(27,306)
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(2,834)**	(964)
Tax effect of income not taxable for tax purposes	**(6)**	(133)
Tax effect of expenses not deductible for tax purposes	**35,778**	25,022
Tax effect of unused tax losses not recognised	**156**	580
Income tax credits for the year	**(6,774)**	(2,801)

8. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2017 (2016: Nil), nor has any dividend been proposed since the end of reporting period (2016: 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.

	2017	2016
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(235,510)**	(162,688)
	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	**(2.48)**	(1.71)

(b) Diluted

Diluted loss per share is the same as basic loss per share for the years ended 31 December 2017 and 2016 as the potential ordinary shares on convertible notes are anti-dilutive.

10. INTANGIBLE ASSETS

	2017	2016
	HK$'000	*HK$'000*
Cost		
At 1 January	**2,656,579**	2,849,785
Exchange differences	**193,206**	(193,206)
At 31 December	**2,849,785**	2,656,579
Accumulated impairment		
At 1 January	**1,085,339**	1,057,000
Impairment loss *(note)*	**162,000**	100,000
Exchange differences	**78,934**	(71,661)
At 31 December	**1,326,273**	1,085,339
Carrying amount		
At 31 December	**1,523,512**	1,571,240

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 2017 and 2016.

Note:

Impairment loss of intangible assets and exploration and evaluation assets in the amounts of HK$162,000,000 and HK$39,000,000 respectively (2016: HK$100,000,000 and HK$24,000,000 respectively) were recognised during the year ended 31 December 2017 as the carrying amount of the cash generating unit for the exploration and production of natural gas business (the "Kashi Project") exceeds its recoverable amount. The recoverable amount of the cash generating unit for the Kashi Project was HK$1,894,000,000 (2016: HK$1,954,000,000) 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. The pre-tax discount rate used for value in use calculations is 23.1% (2016: 21.7%) for the year ended 31 December 2017.

11. ACCOUNTS RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Loan and interest receivables		
— money lending business *(note a)*	**–**	26,235
— others *(note b)*	**37,100**	37,100
	37,100	63,335
Less: Provision for impairment of loan receivables form others	**(37,100)**	(37,100)
	–	26,235

Note:

(a) During the year ended 31 December 2017, the Company has advanced a loan of HK$27,500,000 to China Harvest HK Investment Limited ("China Harvest"), which has defaulted in payment. The loan is secured by the entire issued share capital of China Harvest and other loan receivables as collateral. To protect the interest of the Group due to the default in payment by the borrower, the Group enforced the collateral during the year ended 31 December 2017 by having the shares of China Harvest transferred to the Group. The principal assets of China Harvest are two advances made to two independent third parties totalling HK$61 million, and its principal liabilities are an amount due to the former shareholder and the amount due to the Group. These balances have been recognised under other receivables and other payables in this consolidated financial statements.

As at 31 December 2016, the loan receivable with principal amount of HK$26,000,000 and related interest receivable of approximately HK$235,000 was due from one independent third party. The loan is interest-bearing at 3% per annum. The loan was neither past due nor impaired, and was fully settled in January 2017.

(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. On 2 November 2017, the Group's legal advisor was informed by the liquidator that the process of realisation of assets of Sing Pao was completed and there was unlikely to be any surplus assets for distribution to creditors (including the Company) after payment of the costs of the liquidation.

12. EVENTS AFTER THE REPORTING PERIOD

On 4 November 2017, the Group entered into a provisional sale and purchase agreement to acquire the entire equity interest in Team Lucky Development Limited, whose sole assets are properties in Hong Kong, for a total consideration of HK$24,011,000. During 2017, a deposit in the amount of HK$2,360,000 was paid. The acquisition was completed on 26 March 2018.

On 4 January 2018, the Group entered into a sale and purchase agreement with an independent third party to acquire properties in Hong Kong for a cash consideration of HK$44,438,000. The acquisition was completed on 19 March 2018.

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. Impairment of intangible assets and exploration and evaluation assets

Included in the consolidated statement of financial position as at 31 December 2017 are intangible assets and exploration and evaluation assets with carrying amounts of HK$1,523,512,000 and HK$369,087,000 respectively (collectively referred to as the "Assets"). As disclosed in Notes 16 and 17 to the consolidated financial statements, the intangible assets represent interests in a petroleum contract, which was entered between a subsidiary of the Company, and China National Petroleum Corporation ("CNPC") in relation to a project for 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 "Project"). Exploration and evaluation assets represents costs directly associated with exploratory wells (drilling cost and others) that are capitalised.

As detailed in note 17 to the consolidated financial statements, as at 31 December 2017, an impairment assessments were carried out by the directors of the Company on the Assets. At the end of the reporting period, 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$162,000,000 and HK$39,000,000 were recognised for the year ended 31 December 2017 on intangible assets and exploration and evaluation assets respectively. The recoverable amount of the intangible assets and exploration and evaluation assets has been determined by the directors based on value-in-use calculations. These calculations included applying certain assumptions in preparing cash flows projections for the cash generating unit. In preparing these projections, the directors assumed that, amongst other factors, the Overall Development Program ("ODP") will be submitted and approved by relevant government authority before 31 December 2018, the development stage and commercial production of the oil and natural gas field will start after obtaining the relevant approval, and CPNC will pay the proceeds as agreed in the preliminary gas sharing proposals before 31 December 2018 (the "Proceeds").

Given the Project has been delayed for a number of years, it indicates the existence of a material uncertainty as to when the commercial production can be started. Furthermore, despite having various discussions with CNPC to fix the settlement of the Proceeds, no confirmation from CNPC on the timing of the settlement. The directors are unable to provide us with sufficient supporting documents to the above assumptions.

There were no other satisfactory audit procedures that we could adopt to assess the reasonableness of the assumptions in the impairment assessment. As a result, we were unable to determine whether the recoverable amounts and impairment provisions of the Assets were appropriately stated. Any adjustments to the carrying amounts of the Assets as described above would have a consequential effect on the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended, and the elements making up the consolidated statement of changes in equity and consolidated statement of cash flows.

2. Uncertainties relating to going concern

As at 31 December 2017, the Group had net current liabilities of HK$258,872,000 (2016: HK$177,727,000) and incurred a loss of HK$234,853,000 (2016: HK$162,688,000) for the year ended 31 December 2017. These conditions in the current year, 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 assumptions regarding the timing of the Project and the Proceeds as discussed in point (1) above; (ii) the Group will be able to successfully persuade the contractors not to insist on repayment of the construction cost payables before the Company receives the Proceeds from CNPC; and (iii) the group will be able to raise adequate funding through bank borrowings.

However, the Company has not obtained any written confirmation that CNPC will pay the Proceeds before 31 December 2018 and the contractors will not insist on payment of the construction cost payables until the Company receives the proceeds from CNPC, and has not provided evidence to support the likelihood that the ODP will be submitted and approved as expected.

There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Group can continue as a going concern. 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 2017 on the going concern basis. 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 amount, 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 2016 on a going concern basis. In our audit on the Group's consolidated financial statements for the year ended 31 December 2016, we were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the application of the going concern basis and among other matters that exist in last year, and did not express an opinion in the report.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the year, the Group recorded a revenue in the amount of approximately HK$13,039,000 (2016: HK$1,117,000). The Group's revenue was derived from the money lending business segment of HK$409,000 (2016: HK$1,103,000) and the exploration, production and distribution of natural gas segment of HK$12,630,000 (2016: Nil). The sales of food and beverages segment did not contribute any revenue to the Group (2016: HK$14,000).

The Group recorded a loss attributable to the owners of the Company in the amount of approximately HK$235,510,000, compared to a loss of approximately HK$162,688,000 during last year. The increase in loss was mainly due to the increase impairment losses of (1) intangible assets and (2) exploration and evaluation assets of the Group's exploration, production and distribution of natural gas segment in the amounts of HK$162,000,000 (2016: HK$100,000,000) and HK$39,000,000 (2016: HK$24,000,000) respectively. Loss per share attributable to the owners of the Company was 2.48 HK cents (2016: 1.71 HK cents).

Business Review

Exploration, Production and Distribution of Natural Gas Segment

During the year, the Group acquired a subsidiary which owns an operating entity which is principally engaged in investment in natural gas pipeline and distribution of natural gas in Xinjiang. The operation contributed revenue of approximately HK$12,630,000 since acquisition. The acquisition is intended to diversify our natural resources business to the downstream distribution. The diversified operations is hoped to enable our Group to better cope with the changing environment in the natural resources 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. On 27 December 2017, the Company reached settlement with the vendor of Totalbuild Investments Group pursuant to which the Company is applying to the Cayman Court for discontinuance of the Litigation (as defined below). Details of the Litigation are 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 original 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.

As disclosed in the Company's announcement dated 7 June 2015, the ODP which signifies the transition from exploration period into the development period of Kashi Project and the required reserve report on the cooperation site has not been finalized, the Group issued formal application to CNPC to apply for a two-year extension of the exploration period of Kashi Project beyond the original deadline of 31 May 2015. On 6 December 2017, China Era Energy Power Investment (Hong Kong) Limited ("**China Era**") (an indirectly wholly owned subsidiary of the Company) and CNPC entered into a supplemental and amendment contract to the Petroleum Contract (the "**Supplemental Contract**") extending the First Phase exploration period to 5 December 2017 (i.e. the day immediately preceding the date of the Supplemental Contract). The terms of the Supplemental Contract further provided that (inter alia): (1) China Era has satisfied the investment commitment in respect of the First Phase exploration period; (2) The Petroleum Contract shall proceed to the Second Phase exploration period on the effective date of the Supplemental Contract of 6 December 2017; and (3) the costs incurred by CNPC on Kashi Project between 1 June 2009 and 5 December 2017 shall be aggregated with the pre-contract costs incurred by CNPC on the project. The costs incurred between 1 June 2009 and 31 December 2015 was in the amount of RMB651,653,000 (mainly including three completed wells, reconstruction of natural gas processing plant and the operating costs incurred during the period), and the costs incurred by CNPC between 1 January 2016 and 5 December 2017 shall be confirmed by both parties within 12 months after the effective date of the Supplemental Contract. All the costs incurred by CNPC shall be recovered in kind out of the crude oil/natural gas produced from any oil/gas field inside the cooperation site. Save as the changes expressly stated in the Supplemental Contract, the other terms and conditions of the Petroleum Contract shall remain unchanged.

Since the acquisition of Totalbuild Investments Group, pilot productions were carried out at the site. 186,040,000 (2016: 180,930,000) 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 2017, the acquired oil/gas field has approximately estimated contingent resources of 47.4 (31 December 2016: 47.4) thousand barrels ("**Mbbl**") of oil and 11,453 (2016: 11,544) million cubic metres ("**MMm^3**") 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, this operation did not contribute any revenue and the Group is still negotiating with CNPC regarding the price term. 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 segment loss before income tax was approximately HK$216,136,000 (2016: HK$140,456,000). Impairment losses on intangible assets and exploration and evaluation assets in the amounts of HK$162,000,000 (2016: HK$100,000,000) and HK$39,000,000 (2016: HK$24,000,000) respectively were recognised during the current year as the carrying amounts of the intangible assets and exploration and evaluation assets of the Kashi Project exceeds the recoverable amount. The recoverable amount was determined with reference to the valuation report produced by an independent valuer.

The results of operations in exploration, production and distribution of natural gas segment and costs incurred for exploration and evaluation assets acquisition and exploration activities are shown as below:

(a) Results of operations in exploration, production, and distribution of natural gas segment

	2017	2016
	HK$'000	*HK$'000*
Revenue	**12,630**	–
Cost of inventories sold	**(6,793)**	–
Other income	**147**	785
Operating expenses	**(12,083)**	(16,038)
Depreciation	**(2,485)**	(503)
Impairment of intangible assets	**(162,000)**	(100,000)
Impairment of exploration and evaluation assets	**(39,000)**	(24,000)
Impairment of goodwill	**(6,000)**	–
Finance cost	**(552)**	(700)
Results of operations before income tax expenses	**(216,136)**	(140,456)

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

	2017	2016
	HK$'000	*HK$'000*
Exploration cost	**–**	–

Information on oil/gas field and gross contingent resources

Under the Petroleum Contract (as further supplemented and amended by the Supplemental Contract), the First Phase exploration period was extended to 5 December 2017 (i.e. the day immediately preceding the date of the Supplemental Contract) and the Petroleum Contract shall proceed to the Second Phase of exploration period on the effective date of the Supplemental Contract of 6 December 2017. As at 31 December 2017, the Group has 5 exploration wells and the carrying amounts of the exploration and evaluation assets were approximately HK$369,087,000. 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$16,708,000 and 186,040,000 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)	*(MMm^3)*
As at 31 December 2016 and 1 January 2017	47.4	11,544
Pilot-production activity during the year	–	(91)
At 31 December 2017	47.4	11,453

Sales of Food and Beverages Business

During the year, the Group did not record any revenue from the sales of food and beverages business segment (2016: HK$14,000). The segment loss before tax expenses was approximately HK$1,939,000 (2016: HK$914,000). We will continue to conduct business development campaigns to look for new orders from new customers.

Money Lending Business

During the year, the Group generated 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) of HK$409,000 (2016: HK$1,103,000). The segment profit before tax expenses was approximately HK$207,000 (2016: HK$1,090,000). The Group continued to adopt a stringent credit policy to mitigate the credit risk arising from the money lending business, resulting in a decrease in the revenue when compared to last year.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2017, the Group had no outstanding interest bearing borrowings (2016: Nil). The cash and cash equivalents of the Group were approximately HK$171,926,000 (2016: HK$203,719,000). The Group's current ratio (current assets to current liabilities) was approximately 55.7% (2016: 62.5%). The ratio of total liabilities to total assets of the Group was approximately 27.6% (2016: 22.7%).

As at 31 December 2017, 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. On 27 December 2017, the Company reached settlement with the vendor of Totalbuild Investments Group pursuant to which the Company is applying to the Cayman Court for discontinuance of the Litigation (as defined below). Details of the Litigation are 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 2017 and 2016.

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$141,254,000 and HK$123,900,000 as at 31 December 2017 (2016: HK$131,677,000 and HK$115,500,000) in respect of exploration and evaluation expenditure and capital contributions in a subsidiary respectively.

Litigation

Reference is made to the announcements of the Company (a) dated 16 September 2013 in relation to media reports about Mr. Wang Guoju; (b) dated 7 June 2015 in relation to charges against Mr. Wang Guoju for illegal operation crime involving allegations about improper conduct during the obtaining of the Petroleum Contract (the "**Illegal Operation Charge**"); (c) dated 17 June 2015 in relation to the commencement of the litigation (the "**Litigation**") in the Grand Court of the Cayman islands (the "**Cayman Court**") against (inter alia) the defendants (including Mr. Wang Guoju and UK Prolific, collectively as the "**Defendants**") with the view to obtaining Cayman Court's order to have the Totalbuild Transaction declared void or rescinded and have damages awarded to the Company; (d) dated 25 June 2015 in relation to the obtaining by the Company of the Injunction Order from the Cayman Court restraining the Defendants from disposing of, transferring, dealing in, diminishing the value of or exercising voting rights in respect of 1.86 billion issued Shares (the "**Restrained Shares**"), and restraining the Defendants from converting convertible bonds representing 13,366,190,476 underlying Shares (the "**Restrained CBs**"); (e) dated 18 August 2015 in relation to the continuation of the injunction order (the "**Injunction Order**") against the Company's undertaking not to issue or deal with additional Shares or securities without leave of the Cayman Court until the conclusion of the trial relating to the Litigation or further order by the Cayman Court (the "**Company's Undertaking**"); and (f) dated 6 December 2017 in relation to the signing of the Supplemental Contract between the Group and CNPC to extend the First Phase exploration period by way of supplement and amendment to the original Petroleum Contract.

Following the signing of the Supplemental Contract with CNPC on 6 December 2017, the Company was informed by Mr. Wang Guoju and his legal representative that the Illegal Operation Charge against Mr. Wang Guoju was acquitted. On that basis and after taking legal advice from the Company's legal advisers, the Company has on 27 December 2017 reached settlement with the Defendants pursuant to which the Company is applying to the Cayman Court for discontinuance of the Litigation, as a result of which the Injunction Order and the Company's Undertaking would be discharged such that the Defendants should no longer be restrained in respect of the Restrained Shares and the Restrained CBs. 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 2017.

Employee Information

As at 31 December 2017, the Group had a total workforce of 35 (2016: 18). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Prospects

Exploration, Production and Distribution of Natural Gas

The acquisition of the distribution of natural gas business in Karamay, Xinjiang is intended to strengthen our natural resources operation. We are hopeful that the exploration, production and distribution of natural gas business would continue to grow and make contribution to the revenue of the Group. Further to the signing of the Supplemental Contract and the settlement reached between the Company and the Defendants to discontinue the Litigation in relation to the Kashi Project, the Company will continue to focus on the development of the Kashi Project with the view to achieving sustainable growth for the benefit of our shareholders.

Sales of Food and Beverages Business

The food and beverages business of the Group did not perform well in recent years. The Group will continue to conduct business development campaigns to look for new orders from new customers.

Money Lending Business

The management will continue to look for high quality borrowers to achieve business growth while keeping risk to controllable level.

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 2017.

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 2017, 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. During the year, 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, 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.

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 *(Chairman of Audit Committee)*
Dr. Gu Quan Rong
Mr. Zong Ketao
Mr. Cheng Chun Ying
Ms. Ngan Mei Ying (appointed on 10 April 2017)

As at the date of this announcement, the audit committee comprises two non-executive directors 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 2017 have been reviewed by the audit committee, who is of the opinion that such statements complied 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 2017 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 2017 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 2017 annual report of the Company for the year ended 31 December 2017 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, 27 March 2018

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 and Ms. Ngan Mei Ying as non-executive directors; and Mr. Zong Ketao, Mr. Cheng Chun Ying and Mr. Lee Man Tai as independent non-executive directors.