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(Incorporated in the Cayman Islands with limited liability)

(Stock code: 228)

**SUPPLEMENTAL INFORMATION ON AUDITOR'S MODIFIED
OPINION ON FINANCIAL STATEMENTS
AND
BUSINESS UPDATE ON THE KASHI PROJECT**

Reference is made to the annual results announcement (the “**Results Announcement**”) and the annual report (the “**Annual Report**”) of China Energy Development Holdings Limited (the “**Company**”) for the year ended 31 December 2017. Unless the context otherwise requires, capitalized terms used in this announcement shall have the same meanings as defined in the Results Announcement and the Annual Report.

As explained in the “CEO’s Statement and Management Discussion and Analysis” section on pages 11–13 of the Annual Report and the “Independent Auditor’s Report” on pages 49–54 of the Annual Report, the Company’s auditors do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2017 (the “**2017 Financial Statements**”), on the basis that the auditors were unable to determine: (a) whether the recoverable amounts and impairment provisions of the intangible assets and exploration and evaluation assets (the “**Kashi Assets**”) relating to the Group’s oil and gas project at North Kashi Block, Tarim Basin, the PRC (the “**Kashi Project**”) were appropriately stated, due to the prolonged delay of the Kashi Project giving rise to material uncertainty on the timing of commercial production and the lack of sufficient appropriate audit evidence or other satisfactory audit procedures to assess the reasonableness of the assumptions used by the Directors in the impairment assessment of the Kashi Assets; and (b) whether it is appropriate for the Directors to prepare the 2017 Financial Statements on a going concern basis, despite the material uncertainty cast by the Group’s net current liabilities of HK\$258,872,000 as at 31 December 2017 and its loss of HK\$234,853,000 for the year ended 31 December 2017.

The Company would like to provide additional information on the auditor's modified opinion and the business update on the Kashi Project and the Company in general:

1. During the year ended 31 December 2017 and up to the date of this announcement, the Company's management has conducted various rounds of meetings with China National Petroleum Corporation ("**CNPC**"), the counterparty to the Petroleum Contract, with the view to: (i) applying for an extension of the exploration period of the Kashi Project beyond the original deadline of 31 May 2015 (the "**Extension Application**"); (ii) expediting the progress of CNPC's internal approval of the Overall Development Program (the "**ODP**") of the Kashi Project, and the subsequent submission and approval process of the ODP with the National Development and Reform Commission of the PRC ("**NDRC**"); (iii) negotiating and finalizing with CNPC the contract terms (including the gas unit price) of the Gas Sales Agreement (the "**GSA**") for the Kashi Project; and (iv) discussing the time schedule for CNPC's payment of the Group's gas sharing proceeds entitlement under the Petroleum Contract (the "**Proceeds**") and the commencement of commercial production of Kashi Project.
2. As disclosed in the Company's announcement dated 6 December 2017, China Era Energy Power Investment (Hong Kong) Limited ("**China Era**") (an indirect wholly-owned subsidiary of the Company) and CNPC entered into a supplemental and amendment contract to the Petroleum Contract (the "**Supplemental Contract**") dated 6 December 2017 to extend the First Phase exploration period to 5 December 2017 and acknowledge that the Petroleum Contract has proceeded to the Second Phase exploration period with effect from the date of the Supplemental Contract.
3. As disclosed in the Company's announcement dated 27 December 2017 and 23 May 2018, the Company was informed by Mr. Wang Guoju and his legal representative that the Illegal Operation Charge 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. On 10 May 2018, a Consent Order was granted by the Cayman Court regarding the discontinuation of the Litigation and the discharge of the Injunction Order over the Restrained Shares and the Restrained CBs.
4. The lack of progress in the obtaining of debt financing by the Group in the past few years were partly due to the uncertainties caused by the Illegal Operation Charge and the Litigation, and the Company's ability to raise funds by equity issue was formerly restricted by the Company's undertaking not to issue or deal with additional Shares or securities in the Company without leave of the Cayman Court until the conclusion of the trial relating to the Litigation (the "**Company's Undertaking**"). As disclosed in the Company's announcement dated 23 May 2018, the Company's Undertaking was also formally discharged under the Consent Order granted by the Cayman Court, such that the Company is no longer restrained from issuing or dealing with additional Shares or securities in the Company.

5. Following the signing of the Supplemental Contract and the settlement with the Defendants, the Company's management has during the first half of 2018 engaged in negotiations with various potential lenders and investors with the view to exploring debt and equity fund-raising opportunities for the Group. In May 2018, the Group obtained from a commercial bank in China a three-year banking facility in the amount of RMB100 million (the "**Banking Facility**") secured by the income receivable by the Group under the Petroleum Contract. With the drawdown of this Banking Facility, the Group's liquidity pressure is expected to ease. Save and except the Banking Facility, none of the other negotiations and fund-raising efforts has materialized by way of binding offer or binding agreement so far. The Company will continue to conduct negotiations with potential lenders and investors and disclose by way of announcement(s) as and when any disclosure obligations arise as a result of such negotiations.
6. In May 2018, the Company was informed by CNPC that its local project company has already finalized the ODP for Kashi Project and submitted it for final internal approval by the head office of CNPC. During the project discussions, the Company was given to understand that once the head office approval is granted, the ODP for Kashi Project should be ready for submission to NDRC and the GSA should be ready for signing in the second half of 2018. Simultaneously with the obtaining of ODP approval and the signing of the GSA, we also expect to have a more concrete plan on the settlement mechanisms of the Proceeds and the timetable of commercial operation. The Company will continue to use its best efforts to negotiate with CNPC to expedite the aforementioned processes and negotiations.
7. Pilot production and sales are expressly permitted under the Petroleum Contract during exploration stage. The annual gas production volume (in cubic meters) of Kashi Project has been reported in the Company's annual report since as early as 2012. On an accumulated basis up to 31 December 2017, 1.7 billion cubic meters of natural gas were produced and sold to local customers near the project site. However, no revenue was recognized by the Group from the sales of natural gas under the Kashi Project in the past due to the absence of an agreed unit price of gas embodied in a formal GSA signed by the parties. During the first half of 2018, the Company received more detailed operating figures of Kashi Project and expects to, for the first time since the completion of the acquisition, recognize revenue for Kashi Project in the Group's financial statements during the six months ended 30 June 2018. Based on the Company's preliminary assessment on such operating figures, the revenue recognizable by the Group through its contractual entitlement of gas sharing under the Petroleum Contract up to 30 June 2018 (the "**Expected Revenue**") is expected to exceed RMB250 million. The Company is still in the process of finalizing its financial statements regarding in particular any necessary accounting adjustments and the recognition of the corresponding costs and expenses and therefore, the final figures of the interim results to be published by the Company have yet to be finalized. The recognition of the Expected Revenue during the first half of 2018 is expected to greatly improve the Group's current assets/liabilities position because the receivables from CNPC are expected to form part of the Company's current assets. With the recognition of the Expected Revenue and the drawdown of the Banking Facility but subject to the materialization of additional debt and/or equity funding, the Company is hoping to

return to net current assets position during the second half of 2018 and to have the auditor's modified opinion removed or alleviated during the 2018 audit as regards the Group's going concern.

In the light of the above latest developments, the Company is of the view that the uncertainties leading to the auditors' modified opinion have significantly alleviated as compared to the previous year. At the time of the preparation and audit of the 2017 Financial Statements, the Company's management has engaged an independent valuer to conduct a valuation on the Kashi Assets to determine the recoverable amount of the cash generating unit as at 31 December 2017. In addition, the Company's management has briefed the Board and the audit committee of the Company on the above progresses and updates of the Kashi Project and the Group in general to the extent up to March 2018, the reasonableness of the inputs, assumptions and methodology used in the independent valuation and impairment assessment of the Kashi Assets, the Company's follow-up and working plans for the rest of the year and the auditors' view on key concerns and uncertainties. In particular, the Board and the audit committee noted that the Group: (a) has carried out all exploration and evaluation works at the project site, completed the data and information compilation work with the assistance of professional parties and performed all its obligations so far as the ODP approval application is concerned; (b) has already used its best efforts to negotiate the terms of the GSA; (c) has used its best efforts to negotiate with banks and other institutions to explore additional debt financing to improve the Group's liquidity, ultimately leading to the successful obtaining of the Banking Facility in May 2018; and (d) has resumed efforts in negotiating with potential investors and other institutions to explore additional funding by equity issue to strengthen the Group's financial position as soon as the Company's Undertaking regarding equity fund-raising was lifted. In the light of the foregoing, the Board and the audit committee of the Company concurred with the management that the various delay factors of the Kashi Project and the liquidity pressure faced by the Group leading to the going concern issue in the previous years were not resulted from the Group's default. After considering the management's follow-up and working plans going forward, the Board and the audit committee of the Company concurred with the management's position regarding the judgmental areas on the valuation of the Kashi Assets and the going concern basis of the 2017 Financial Statements.

The project details and key milestones for the Kashi Project were disclosed in the Company's circular dated 3 December 2010. In essence, the Petroleum Contract covers an exploration period of up to six years (which was already extended by CNPC pursuant to the Supplemental Contract), a development period and a production period. The development period shall commence on the date of approval of the ODP by NDRC and end on the date of the completion of the development operations required by the ODP to be completed during the development period. The end of the development period also signifies the commencement of the commercial production of the project and hence the production period, which runs for fifteen years for an oil field and twenty years for a gas field (subject to extension with the approval of the government). Further announcement(s) will be made by the Company regarding the implementation timetable of such development operations as and when the ODP is approved by NDRC.

During the second half of 2018, the Company's management intends to continue to follow up with CNPC with the view to expediting the ODP process and GSA signing thereby accelerating the commencement of commercial production of Kashi Project, and continue to follow up with potential lenders and investors with the view to secure additional debt and/or equity funding thereby removing or alleviating the key concerns of auditors leading to the modified opinion in previous years. The Board and the audit committee of the Company concurred with such action plans of the management. Given the latest development of the Kashi Project and the Company in general and with the rolling out of the Company's action plans going forward but subject to the materialization of additional fund-raising in the second half of 2018, the Company will continue to do its best to remove or alleviate the uncertainties leading to the auditors' modified opinion.

Further announcement(s) will be made by the Company as and when there is any significant progress of the Kashi Project.

This announcement contains forward-looking statements which are based on the current expectations, estimates, projections, beliefs and assumptions of the Company about the businesses and markets in which the Group operates. These forward-looking statements are not guarantees of future performance, financial position or operating results of the Group and are subject to market risks, uncertainties and factors which are beyond the control of the Company. Actual outcomes may differ materially from the assumptions made and statements contained in this announcement. Shareholders of the Company and potential investors should exercise caution when dealing in the securities of the Company.

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

Hong Kong, 23 August 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 an 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.

* *For identification purposes only*