Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

UPDATE ANNOUNCEMENT ON THE COMPLETION OF AUDITING PROCESS OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of China Energy Development Holdings Limited (the "**Company**", which together with its subsidiaries is collectively referred to as the "**Group**") dated 30 March 2020 (the "**2019 Unaudited Annual Results Announcement**") in relation to the unaudited annual results of the Group for the year ended 31 December 2019 (the "**2019 Annual Results**") which have yet to be agreed by the Company's auditors. Unless otherwise defined or the context otherwise requires, capitalized terms in this announcement shall have the same meanings as defined in the 2019 Unaudited Annual Results Announcement.

The board (the "**Board**") of directors (the "**Directors**") of the Company wishes to announce that on 8 May 2020, the auditing process of the 2019 Annual Results has been completed. The Company has now obtained the agreement from the Company's auditors, ZHONGHUI ANDA CPA Limited ("**ZHONGHUI ANDA**"), on the 2019 Annual Results (including the figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto) as set out in the 2019 Unaudited Annual Results Announcement. The 2019 Annual Results as contained in the 2019 Unaudited Annual Results Announcement remain unchanged. Shareholders are referred to the 2019 Unaudited Annual Results Announcement, which already contains the 2019 Annual Results and the disclosure as required by the Listing Rules.

This announcement provides updated information on the 2019 Annual Results, which shall be read in conjunction with the 2019 Unaudited Annual Results Announcement.

* *For identification purposes only*

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

1. Corresponding figures

Included in the revenue for the year ended 31 December 2018 was revenue from sales of natural gas of approximately HK$368,903,000 arising from its interests in a Petroleum Contract for the exploration and evaluation period from 2009 to 2017. We have not been provided with sufficient appropriate audit evidence whether the revenue should be recorded in the year ended 31 December 2018 or before.

2. Exploration and evaluation assets, property, plant and equipment and intangible assets

Included in the consolidated statement of financial position as at 31 December 2018 were intangible assets and exploration and evaluation assets with carrying amounts of HK$1,250,254,000 and HK$474,224,000 respectively. Impairment losses of HK$95,000,000 and HK$36,000,000 were recognised for the year ended 31 December 2018 on intangible assets and exploration and evaluation assets respectively. Amortisation of approximately HK$117,727,000 was recognised for the year ended 31 December 2018 on intangible assets. During the year, certain aforesaid balances of exploration and evaluation assets were transferred to property, plant and equipment. Written off on exploration and evaluation assets of HK$37,673,000 and impairment losses of HK$33,000,000, HK$60,000,000 and HK$1,000,000 were recognised for the year ended 31 December 2019 on property, plant and equipment, intangible assets and exploration and evaluation assets respectively. Depreciation of approximately HK$4,877,000 and amortisation of approximately HK$16,458,000 were recognised for the year ended 31 December 2019 on property, plant and equipment and intangible assets.

We have been unable to obtain sufficient appropriate audit evidence to ascertain the recoverable amount of aforesaid balances as at 31 December 2018. There were no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balances were fairly stated as at 31 December 2018 and we have not been provided with sufficient appropriate audit evidence on the impairment losses and amortisation recorded in the year ended 31 December 2018 and thus the consequential effect on the written off, impairment losses, depreciation and amortisation recorded in the year ended 31 December 2019.

3. Deferred tax

Included in consolidated statement of financial position as at 31 December 2018 was deferred tax liabilities with carrying amount of approximately HK$79,268,000 in relation to exploration costs. Deferred tax charge of approximately HK$180,902,000 and deferred tax credit of approximately HK$91,926,000 was recorded for the years ended 31 December 2018 and 2019 respectively.

Because of the limitation on the point 2 above related to the exploration and evaluation assets, there were no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balances were fairly stated as at 31 December 2018 and we have not been provided with sufficient appropriate audit evidence on the deferred tax charge recorded in the year ended 31 December 2018 and thus the consequential effect on the deferred tax credit recorded in the year ended 31 December 2019.

Any adjustments to the figures as described from points 1 to 3 above might have a consequential effect on the Group's financial performance and cash flows for the years ended 31 December 2019 and 2018 and the financial position of the Group as at 31 December 2018, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 3 to the consolidated financial statements which mentions that for the year ended 31 December 2019, the Group has suffered a loss of HK$73,491,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$302,925,000. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

THE STATUS OF GAS SALES AGREEMENT

As at 31 December 2019, the Company was still negotiating the Gas Sales Agreement ("**GSA**") with China National Petroleum Corporation ("**CNPC**"). The terms of the GSA include the quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point, etc. As disclosed in the Company's announcement dated 28 April 2020, the GSA was signed on 27 April 2020.

INFORMATION OF GAS RESERVES

For the year ended 31 December 2019, the Group engaged an independent third party consulting firm to perform the review on the reserves which was conducted in accordance with Petroleum Resources Management System, an international recognised reserve standards and guideline. The following table summarised the estimates of Group's 49% net entitlement interests of the gas reserve in the Petroleum Contract as at 31 December 2019.

	Natural gas *(BM^3)*
Proved (1P)	6.83
Proved and Probable (2P)	9.19

Reserves are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically productive in the future from known and discovered oil and natural gas reservoirs under existing economic and operating conditions. Both deterministic and probabilistic methods are used in reserves estimation. When probabilistic method is used, there should be at least a 90% probability (for Proved Reserve or"1P") that the quantities actually recovered will equal or exceed the estimate and there should be at least a 50% probability (for Proved and Probable Reserve or "2P") that the quantity actually recovered will equal or exceed the estimate.

ADDITIONAL DISCLOSURE REGARDING THE MODIFIED OPINION

Qualified opinion in 2019

The auditors of the Company issued a qualified opinion in the independent auditors' report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2019. In view of the qualified opinion, the Board would like to provide the following additional information.

As set out in the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**"), the previous auditors of the Company issued disclaimer of opinion in the independent auditors' report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2018. Further information regarding the disclaimer of opinion last year is set out on pages 11 to 15 of the 2018 Annual Report.

As stated in the independent auditors' report, the existing auditors have not been provided with sufficient appropriate audit evidence: (1) as to whether the revenue from sales of natural gas of approximately HK$368,903,000 arising from its interests in the Petroleum Contract for the exploration and evaluation period from 2009 to 2017 should be recorded in the year ended 31 December 2018 or before; (2) to ascertain the recoverable amount of the balance of the intangible assets and exploration and evaluation assets as at 31 December 2018, as to whether these balances were fairly stated at HK$1,250,254,000 and HK$474,224,000, respectively, as at 31 December 2018, and the impairment losses and amortisation recorded in the year ended 31 December 2018; and (3) on the deferred tax charge recorded in the year ended 31 December 2018. Any adjustments of these items may affect the comparability of the current year's figures with the corresponding figures, affect the opening balance of these items, result in consequential effects on the written off, impairment losses, depreciation and amortisation for the year ended 31 December 2019, result in consequential effects on the Group's financial performance and cash flows, and result in consequential effects on the deferred tax credit recorded in the year ended 31 December 2019.

The qualified opinion is because of the comparative figures, opening balance and consequential effect of the bases for disclaimer of opinion relating to the audit of the consolidated financial statements of the Group in the previous year. These bases for qualified opinion did not arise from different judgments in the valuation and impairment of balance sheet items in the current year between the Company's Directors and the existing auditors. The audit committee concurred with the Company's Directors in the valuation and impairment of the balance sheet items in the current year and the previous year. Since the bases for qualified opinion this year is principally the consequence brought forward from the bases for disclaimer of opinion in the previous year, barring unforeseen circumstances which may arise after the date hereof over the relevant balance sheet items, the Company's Directors do not expect these bases of qualification to recur in the consolidated financial statements for the year ending 31 December 2020.

Impairment loss on Kashi Project Assets

The impairment of the carrying value of the intangible assets, property, plant and equipment and the exploration and evaluation assets relating to Kashi Project (the "**Kashi Project Assets**") was principally due to the change in production volume forecast to reflect the current market situation. The management made assumptions including the timing and development plan of the latest ODP (including the capital expenditure for additional wells and related facilities), commercial production and signing of GSA, future gas prices, productions costs (fixed and variable) and production volume forecast (based on the Group's previous estimation on the natural gas resources of the Kashi field).

Except for the change in post-tax discount rate from 16% (equivalent to pre-tax discount rate of 19.5%) in 2018 to 14% (equivalent to pre-tax discount rate of 15.8%) in 2019 and the change in production volume forecast to reflect the current market situation as explained above, there were no other significant changes in the value of the inputs and assumptions used in the valuation as compared to those previously adopted. The change in discount rate was mainly due to the decrease in equity risk premium in China from 10.8% in 2018 to 8.76% in 2019.

In arriving at the fair value, the valuer has considered three generally accepted approaches, namely, market approach, cost approach and income approach. Since market approach is not appropriate (as no similar transactions in the public market can be identified as comparable transaction) and cost approach is not appropriate (as it ignores the economic benefits of the ownership of the business), the valuer has adopted income approach — discounted cash flow method to assess the fair value of the project. A discount on lack of marketability (DLOM) of 30% was applied in the fair value assessment, which is in line with market practice. In compliance with HKAS 36 Impairment of Assets, during an impairment testing of assets (other than financial assets), the recoverable amount should be the greater of (i) the fair value less costs of disposal, and (ii) the value-in-use (VIU), which is based on the estimated future cash flows expected to be derived from the asset discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Therefore, after assessing the fair value and VIU in the valuation report, the Company has used the VIU, being the higher of the two figures, in determining the recoverable value of the Kashi Project Assets.

Going Concern Basis

For the year ended 31 December 2019, the Group has suffered a loss of HK$73,491,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$302,925,000. 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 Group's current liabilities as at 31 December 2019 are mainly attributable to exploration and evaluation cost payables in the amount of HK 419,069,000 (31 December 2018: HK$353,956,000). The directors of the Company are of the view that the Group will be able to successfully persuade these contractors not to insist on repayment before the full operation of exploration, production and distribution business in Kashi. However, there is no certainty that these contractors will not demand repayment before the full operation of exploration, production and distribution business in Kashi.

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) financial support from a shareholder not to demand repayment within 12 months; (ii) the Group being able to successfully persuade contractors not to insist on repayment of the construction cost payables before the full operation of exploration, production and distribution business in Kashi; and (iii) the Group being able to raise adequate funding through bank borrowings or otherwise. Taking into account the above assumptions, the directors of the Company consider that 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 2019.

The Audit Committee's view

During the audit process, the audit committee discussed with the management during which the management presented the financial highlights and conveyed the key audit matters expressed by the auditors. After considering the circumstances surrounding the key audit matters and the management's presentation, the audit committee concurred with the management's judgments regarding the valuation of the Kashi Project Assets and the going concern basis of the financial statements.

Removal of audit modification

CNPC has already settled the entire preliminary profit sharing entitlement of the Group for gas sales in 2018 either in cash or by offsetting of payables owed to CNPC. Regarding the settlement of profit sharing entitlement of the Group for gas sales between 2009 and 2017, CNPC has substantially settled in cash or notes after the signing of a second supplemental and amendment contract to the Petroleum Contract (the "**2nd Supplement Contract**") on 20 June 2019. The ODP filing was completed on 8 July 2019 and the GSA was signed on 27 April 2020. In addition, the Group engaged an independent third party consulting firm to perform a review on the gas reserves which was conducted in accordance with Petroleum Resources Management System, an international recognised reserve standards and guideline.

The perceived uncertainties on the audit modifications in 2018 have been addressed in 2019. The Directors will continue to negotiate with banks and other financiers, financial institutions and potentially interested investors with the view to obtaining new funding whether by way of equity or debt financing to improve the Company's financial position and/or liquidity.

EVENTS AFTER THE REPORTING PERIOD

The Group's production facilities are principally situated in Kashgar city (also known as Kashi) and Karamay city (also known as Kelamayi) of Xinjiang Uygur Autonomous Region and its offices are situated in Korla city (also known as Kuerla), Xinjiang and Beijing. As disclosed in the Company's announcement dated 10 March 2020, travel restrictions and other public health measures (the "**Public Health Measures**") including the extension of Chinese new year holiday and quarantine requirements of travelers were imposed in various areas in China since late January 2020 in an attempt to contain the novel Coronavirus epidemic (the "**Epidemic**"), as a result of which certain staff of the Group were restricted from traveling or otherwise returning to work after holiday. That having said, since the Group supplies natural gas through pipelines without heavy reliance on human resources, the impact of the Epidemic and Public Health Measures on the Group's operations should be minimal. The Company will continue to monitor the development of the Epidemic and its impact, if any, on the Company's operations, and make further announcement(s) as appropriate if necessary.

AUDIT COMMITTEE

During the year and up to 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 and Mr. Cheng Chun Ying. As at the date of this announcement, the audit committee comprises one non-executive Director and three independent non-executive Directors. 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 2019 have been reviewed by the audit committee, which 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 AUDITORS

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 2019 have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by ZHONGHUI ANDA 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 ZHONGHUI ANDA on the announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held on Tuesday, 23 June 2020. The notice convening the AGM will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 18 June 2020 to Tuesday, 23 June 2020 (both days inclusive) for the purpose of determining the eligibility of the shareholders of the Company to attend and vote at the AGM. During the closure of the register of members of the Company, no transfer of Shares will be effected. In order to be eligible to attend and vote at the AGM (or at any adjournment thereof), all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 17 June 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual 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 annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company on or before 15 May 2020.

Save as disclosed above, all other information in the 2019 Unaudited Annual Results Announcement remains unchanged.

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

Hong Kong, 8 May 2020

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.