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: 00228)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the "**Board**") of China Energy Development Holdings Limited (the "**Company**") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Unaudited six months ended 30 June	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**782**	5,399
Other income	*4*	**1,296**	6
Cost of inventories consumed		**–**	(5,281)
Staff costs		**(5,340)**	(4,255)
Operating lease rentals		**(1,958)**	(1,104)
Depreciation of property, plant and equipment		**(391)**	(300)
Fuel costs and utility expenses		**(83)**	(96)
Gain on disposal of financial assets held for trading		**–**	1,901
Fair value (loss)/gain of financial assets held for trading		**(6,177)**	4,187
Impairment of intangible assets	*11*	**–**	(129,797)
Gain on reversal of impairment of loan receivable		**–**	9,113
Gain on cancellation of convertible notes	*15*	**–**	92,459
Other operating expenses		**(5,492)**	(6,470)
Finance costs		**(2,826)**	(6,551)
Loss before income tax	*5*	**(20,189)**	(40,789)
Income tax credits	*6*	**574**	456
Loss for the period		**(19,615)**	(40,333)

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the six months ended 30 June 2016

	Notes	Unaudited six months ended 30 June 2016 HK$'000	2015 HK$'000
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(6,237)**	–
Total comprehensive income for the period		**(25,852)**	(40,333)
Loss for the period attributable to:			
Owners of the Company		**(19,615)**	(40,333)
Non-controlling interests		**–**	–
		(19,615)	(40,333)
Total comprehensive income attributable to:			
Owners of the Company		**(25,852)**	(40,333)
Non-controlling interests		**–**	–
		(25,852)	(40,333)
Loss per share	*8*		
— Basic (HK cents)		**(0.21)**	(0.42)
— Diluted (HK cents)		**(0.21)**	(0.42)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2016

	Notes	**Unaudited 30 June 2016 *HK$'000***	Audited 31 December 2015 *HK$'000*
Non-current assets			
Property, plant and equipment	*9*	**3,836**	4,252
Exploration and evaluation assets	*10*	**422,140**	433,832
Intangible assets	*11*	**1,792,785**	1,792,785
Deferred tax assets		**88,840**	89,796
		2,307,601	2,320,665
Current assets			
Loan and interest receivables	*12*	**–**	46,803
Financial assets held for trading		**62,265**	68,442
Other receivables, deposits and prepayments		**8,053**	6,995
Amounts due from related companies	*13*	**–**	9,137
Cash and bank balances		**234,540**	204,278
		304,858	335,655
Total assets		**2,612,459**	2,656,320
Current liabilities			
Trade payables	*14*	**–**	2,889
Other payables and accruals		**446,749**	463,889
Amount due to a shareholder	*13*	**40,402**	40,402
		487,151	507,180
Net current liabilities		**(182,293)**	(171,525)
Total assets less current liabilities		**2,125,308**	2,149,140

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30 June 2016

	Notes	**Unaudited 30 June 2016** *HK$'000*	Audited 31 December 2015 *HK$'000*
Non-current liabilities			
Convertible notes	*15*	**55,060**	52,234
Deferred tax liabilities		**–**	53
		55,060	52,287
Net Assets		**2,070,248**	2,096,853
Equity			
Share capital	*16*	**475,267**	475,267
Reserves		**1,594,981**	1,620,833
Attributable to owners of the Company		**2,070,248**	2,096,100
Non-controlling interests		**–**	753
Total equity		**2,070,248**	2,096,853

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

a. Statement of Compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

b. Basis of measurement and going concern assumption

(i) Basis of measurement

The 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 period, the Group has incurred a loss of HK$19,615,000 (six months ended 30 June 2015: HK$40,333,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$182,293,000 (31 December 2015: HK$171,525,000). These conditions 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 further explained in Note 18 to the interim financial statement, the directors of the Company was informed that Mr. Wang Guoju was formally charged by prosecution authorities in China for illegal operation crime (the "**Charge**"), possibly involving allegations about improper conduct during the obtaining of the petroleum contract, which was entered into with China National Petroleum Corporation ("**CNPC**") to drilling, exploration and production of oil and natural gas in North Kashi Block, Tarim Basin in the People's Republic of China ("**PRC**") (the "**Petroleum Contract**"). After taking into account of the legal opinion, the directors of the Company consider that the Charge is only at a preliminary stage as at 30 June 2016 and up to the present, the directors of the Company is not in the position to assess its possible impact on the Group's oil and gas operation and financial position. According to the legal opinion from the Group's legal advisors, the Group may not be able to exercise its right under the Petroleum Contract if Mr. Wang Guoju is found guilty for improper conduct during the obtaining of the Petroleum Contract which might render the contract voidable. However, the directors consider that they have long-term and regular working relationship with CNPC and up to now, did not receive any notification from CNPC declaring the Petroleum Contract is voidable, and so they expected that the Petroleum Contract will continue to be valid and will be executed as planned.

As at 30 June 2016, the directors are still negotiating with CNPC with the view to signing the Gas Sales Agreements ("**GSA**") and expected the negotiation of the GSA will complete in the year 2016. 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 close the price gap between imported and local gas prices. The 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 activities at the site and now working with professional parties to prepare the Overall Development Program ("**ODP**") which required government approval before full production could be started. As at 30 June 2016, the approval of ODP from National Development and Reform Commission has not yet been obtained. The delay in finalising the ODP is the major reason for the delay in government approval. Based on current information available to the directors, the directors expect that the ODP should be ready by 2017 and 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 is discussed and agreed by the joint management committee of Kashi project which comprises representatives from CNPC and the Group at 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. The 2nd natural gas sharing proposal is discussed and agreed by the joint management committee at 3 March 2015 (the "**2nd Proposal**") which covers the natural gas from pilot-production which was extracted and delivered during the year ended 31 December 2014. Up to the date of this report, the Company is still negotiating with CNPC with the view to signing the proposal which covers the natural gas from pilot-production which was extracted and delivered during the year ended 31 December 2015. However, the unit price in the preliminary sharing proposals is only a preliminary unit price used for this preliminary sharing, the final unit price is still subject to change and would only be confirmed after the formal GSA signed. Up to the date of approval of these financial statements, the Group has not yet received the proceeds as agreed in the preliminary sharing proposals, and the directors are still negotiating with CNPC to fix the payment schedule. Based on currently available information, the directors expect the proposed distribution from the Proposal and 2nd Proposal will be received during year 2016.

The Group's current liabilities as at 30 June 2016 are mainly attributable to exploration and evaluation cost payables amounting to HK$413,982,000, and directors of the Company confirm that these contractors are aware of the fact that the Company is in the process of negotiating the settlement dates of the above mentioned proceed from preliminary gas sharing proposals, and hence these contractors are not expected to demand payment of the construction costs until CNPC has settled the proceed as agreed in the preliminary gas sharing proposals. However, no written confirmation from these contractors has been obtained to confirm that they will not demand repayment before the Company receive proceed from CNPC.

In view of the above circumstances, the management has carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) the Petroleum Contract continues to be valid; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 31 December 2016; and (iii) the contractors will not demand the Company to settle the construction cost payables before the Company receive the proceed from preliminary gas sharing proposals from CNPC. 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 30 June 2016.

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

2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015 with addition for the amendments and interpretations (the "**HKFRSs**") issued by the HKICPA, which have become effective.

The Group has adopted the new and revised standards and interpretations issued by the HKICPA that are effective for the accounting period beginning on 1 January 2016. The adoption of these new and revised HKFRSs has no material impact on the Group's unaudited condensed consolidated financial statements.

The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's 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 reserves to the segment and to assess its performance. In accordance with the Group's internal organization and reporting structure the operating segments are based on nature of business.

The Group has the following three reportable segments:

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

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

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

The segment information provided to the Board for the reportable segments for the six months ended 30 June 2016 and 2015 are as follows:

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

	Exploration and Production *HK$'000*	**Sales of Food and Beverages Business** *HK$'000*	**Money Lending Business** *HK$'000*	**Total** *HK$'000*
For the six months ended 30 June 2016				
Revenue from external customers	**–**	**–**	**782**	**782**
Reportable segment (loss)/profit before tax expenses	**(4,447)**	**(787)**	**780**	**(4,454)**
Segment results included:				
Interest income	**–**	**–**	**–**	**–**
Depreciation	**268**	**123**	**–**	**391**
Reportable segment assets	**2,222,405**	**1,738**	**–**	**2,224,143**
Reportable segment liabilities	**(443,521)**	**–**	**–**	**(443,521)**

	Exploration and Production *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Money Lending Business *HK$'000*	Total *HK$'000*
For the six months ended 30 June 2015				
Revenue from external customers	–	5,399	–	5,399
Reportable segment loss before tax expenses	(137,128)	(779)	–	(137,907)
Segment results included:				
Interest income	2	–	–	2
Depreciation	281	19	–	300
Impairment of intangible assets	129,797	–	–	129,797
Additions to non-current assets	–	1,964	–	1,964
Reportable segment assets	3,796,582	13,486	–	3,810,068
Reportable segment liabilities	(469,451)	(7,116)	–	(476,567)

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

	Unaudited six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(4,454)**	(137,907)
Other income	**502**	3
Gain on disposal of financial assets held for trading	**–**	1,901
Fair value (loss)/gain of financial assets held for trading	**(6,177)**	4,187
Gain on reversal of impairment of loan receivable	**–**	9,113
Gain on cancellation of convertible notes	**–**	92,459
Finance costs	**(2,826)**	(6,551)
Unallocated head office and corporate expenses	**(7,234)**	(3,994)
Loss before income tax	**(20,189)**	(40,789)

	Unaudited 30 June 2016	Audited 31 December 2015
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**2,224,143**	2,333,706
Deferred tax assets	**88,840**	89,796
Other receivables, deposits and prepayments	**3,110**	1,610
Financial assets held for trading	**62,265**	68,442
Unallocated head office and corporate assets	**234,101**	162,766
Total assets	**2,612,459**	2,656,320

	Unaudited 30 June 2016	Audited 31 December 2015
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**443,521**	458,776
Deferred tax liabilities	**–**	53
Convertible notes	**55,060**	52,234
Amount due to a shareholder	**40,402**	40,402
Unallocated head office and corporate liabilities	**3,228**	8,002
Total liabilities	**542,211**	559,467

4. OTHER INCOME

	Unaudited six months ended 30 June 2016 HK$'000	2015 HK$'000
Exchange gain	**502**	–
Gain on disposal of subsidiaries (note 19)	**776**	–
Other	**18**	6
	1,296	6

5. LOSS BEFORE INCOME TAX

	Unaudited six months ended 30 June 2016 HK$'000	2015 HK$'000
Loss before income tax is arrived at after charging:		
Cost of inventories consumed	**–**	5,281
Depreciation of property, plant and equipment	**391**	300
Staff costs (including directors remuneration)		
— Wages and salaries and other benefits	**5,294**	4,214
— Pension fund contributions	**46**	41
	5,340	4,255
Operating lease rentals	**1,958**	1,104

6. INCOME TAX CREDITS

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

	Unaudited six months ended 30 June 2016 HK$'000	2015 HK$'000
Deferred tax	**574**	456

No provision for Hong Kong profits tax has been made as the Group had unused tax losses brought forward for both periods. People's Republic of China (the "**PRC**") enterprise income tax calculated at 25% on the estimated assessable profit for both periods.

7. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2016 (2015: Nil), nor has any dividend been proposed since the end of reporting period.

8. 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 period.

	Unaudited six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**19,615**	40,333
	Number of Shares	
Weighted average number of ordinary shares in issue	**9,505,344,000**	9,505,344,000
	HK Cents	
Basic loss per share	**0.21**	0.42

(b) Diluted

Diluted loss per share is the same as basic loss per share for six months period ended 30 June 2016 and 2015 as the potential ordinary shares on convertible notes are anti-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group did not acquire any property, plant and equipment (2015: HK$1,964,000).

10. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2016, the Group did not purchase any exploration and evaluation assets (2015: Nil).

11. INTANGIBLE ASSETS

At 30 June 2016, the interest in the petroleum production sharing contract acquired in previous years in relation to the acquisition of subsidiaries was recognized as intangible assets at costs. No amortization was provided for the six months period ended 30 June 2016 and 2015.

No impairment loss of intangible assets was recognised during the six months period ended 30 June 2016.

Impairment loss of intangible assets HK$129,797,000 was recognised during the six months period ended 30 June 2015 as the carrying amount of the intangible assets exceeds the recoverable amount. The recoverable amount of the cash generating unit for the exploration and production segment as at 30 June 2015 was HK$3,590,000,000 based on value in use calculation and by reference to the revaluation report produced by an independent valuer.

12. LOAN AND INTEREST RECEIVABLES

	The Group	
	Unaudited	Audited
	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
Loan and interest receivables in money lending business	**–**	46,803

As at 31 December 2015, the loan receivables with principal amounts of HK$46,000,000 and related interest receivables of HK$803,000 were due from two independent third parties. These loans are interest-bearing at rates ranging from 12% to 18% per annum.

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

13. AMOUNTS DUE FROM/(TO) RELATED COMPANIES AND A SHAREHOLDER

Amounts due from related companies are unsecured, interest free and repayable on demand; and amount due to a shareholder is unsecured, interest free and is repayable on demand.

14. TRADE PAYABLES

An ageing analysis of trade payables of the Group is as follows:

	Unaudited	Audited
	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
Over 1 year	**–**	2,889

15. CONVERTIBLE NOTES

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

No such written certificate was received by the Company on or before 31 May 2015. Under the terms of Totalbuild Transaction, the Shortfall Notes have been returned to the Company for cancellation. The gain of HK$92,459,000 was recorded as the result of the cancellation of Shortfall Notes during the six months period ended 30 June 2015.

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

	Carrying amount	
	Liability component	**Equity component**
	HK$'000	*HK$'000*
At 31 December 2015 and 1 January 2016	52,234	695,828
Interest expenses	2,826	–
As 30 June 2016	55,060	695,828

16. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorized:		
Ordinary shares of HK$0.05 each		
At 31 December 2015 and 30 June 2016	25,000,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each		
At 31 December 2015 and 30 June 2016	9,505,344,000	475,267

17. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

	Unaudited six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Key management personnel remuneration:		
directors — short-term employee benefits	**1,261**	700

18. LITIGATION

Reference is made to the announcements (the "**Announcements**") of Company dated 7 June 2015, 17 June 2015, 25 June 2015, 29 June 2015 and 18 August 2015 in relation to, inter alia, the commencement of the Litigation in relation to Totalbuild Transaction against the Vendor, Mr. Wang Guoju, UK Prolific, Mr. Wang Hanning and other parties (the "**Defendants**").

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

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

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

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

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

As the Litigation is only at a preliminary stage, the Board is not in the position to assess the possible impact on the Group's oil and gas operation and financial position. The Board will update shareholders and the public on any material development of the Litigation by way of announcement if and when appropriate. Details of the Litigation were disclosed in the Company's announcements 7 June 2015, 17 June 2015, 25 June 2015, 29 June 2015 and 18 August 2015.

19. DISPOSAL OF SUBSIDIARIES

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

	Unaudited Date of disposal *HK$'000*
Assets disposed of:	
Other receivables, deposits and prepayment	**52**
Amounts due from related companies	**9,137**
Cash and bank balances	**7**
Liabilities disposed of:	
Trade payables	**(2,889)**
other payables and accruals	**(6,227)**
Deferred tax liabilities	**(53)**
Non-controlling interests	**(753)**
Net liabilities	**(726)**
Satisfied by:	
Cash	**(50)**
Gain on disposal	**(776)**

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the six months period under review, the Group recorded the turnover from the money lending business of approximately HK$782,000 (2015: nil). The Group's turnover was derived wholly from the money lending business segment. The exploration and production segment and sales of food and beverages segment did not contribute any revenue to the Group during the period under review (2015: nil).

The Group recorded a loss for the six months period attributable to the owners of the Company of approximately HK$19,615,000, compared to a loss of approximately HK$40,333,000 during the corresponding period in 2015. The decrease in loss was mainly due to the fact that there is no impairment loss of intangible assets being recognised during the period under review. Loss per share attributable to the owners of the Company was 0.21 HK cents (2015: 0.42 HK cents).

Business Review

Exploration and Production Segment

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

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

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

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

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

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

Since the acquisition of Totalbuild Investments Group, pilot productions were carried out at the site. 88,720,000 (six months period ended 30 June 2015: 67,890,000) cubic meters of gas was extracted during the six months ended 30 June 2016. 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 30 June 2016, the acquired oil/gas field has approximately estimated contingent resources of 47.4 (31 December 2015: 47.4) thousand barrels ("**Mbbl**") of oil and 11,627 (31 December 2015: 11,670) 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 period, the exploration and production segment did not contribute any revenue and the Group is still negotiating with CNPC regarding the price term. During the period, the segment loss before income tax was approximately HK$4,447,000 (six months period ended 2015: HK$137,128,000). During the period, no impairment loss of intangible assets was recognised, as compared to the impairment loss on intangible assets in the amount of HK$129,797,000 recognised during the six months period ended 30 June 2015. No development and production activity was carried out under the Petroleum Contract. The pilot-production is not regarded as production activities as the Petroleum Contract is still in its exploration stage and ODP is yet to be approved. The results of operations in exploration and production segment and costs incurred for exploration and evaluation assets acquisition and exploration activities are shown as below:

(a) Results of operations in exploration and production segment

	Unaudited six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Net sales to customers	**–**	–
Other income	**–**	2
Operating expenses	**(4,179)**	(7,052)
Depreciation	**(268)**	(281)
Impairment loss of intangible assets	**–**	(129,797)
Results of operations before income tax expenses	**(4,447)**	(137,128)

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

	Unaudited six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Exploration cost	**–**	–

Sales of Food and Beverages Business

For the six month ended 30 June 2016, the Group did not record any revenue from the sales of food and beverages business segment (2015: HK$5,399,000). The segment loss before tax expenses was approximately HK$787,000 (2015: loss of HK$779,000). The significant decrease in revenue during the period was mainly due to the Group's intention to reduce reliance on the sales of food and beverage to related companies. The Group has tried to change the customer and product mix with a view to increasing diversity of this business segment and we will continue to keep track of the economic environment and review the future allocation of resources as and when required.

Money Lending Business

For the six months ended 30 June 2016, the Group recorded revenue from the money lending business of HK$782,000 (2015: Nil). The segment profit before tax expenses was approximately HK$780,000 (2015: Nil). The Group recorded revenue from money lending business starting from the second half of 2015 and the Company is hopeful that the segment continue to provide stable revenue for the Group.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2016, the Group had no outstanding interest-bearing borrowings (31 December 2015: Nil). The cash and cash equivalents of the Group were approximately HK$234,540,000 (31 December 2015: HK$204,278,000). The Group's current ratio (current assets to current liabilities) was approximately 0.63 (31 December 2015: 0.66). The ratio of total liabilities to total assets of the Group was approximately 21% (31 December 2015: 21%).

As at 30 June 2016, the Company has outstanding convertible notes in the 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 period, no convertible note was converted to ordinary shares of the Company.

In June 2015, the Group commenced legal actions against the holder(s) of the convertible notes, as further disclosed in the note "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 30 June 2016 and 2015.

Exchange Exposure

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

Capital Commitments

The Group had capital commitments of approximately HK$259,511,000 as at 30 June 2016 (31 December 2015: HK$265,154,000).

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 30 June 2016 and 2015.

Employee Information

As at 30 June 2016, the Group had a total workforce of 22 (2015: 30). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Prospects

Natural Resource Industries

As the litigation in relation to the Kashi Project is only in a preliminary stage, the Company will continue to closely monitor the status of the project and do what we can to uphold and protect the Company's best interest, our investment costs and our expectation on the return of the project.

Sales of Food and Beverages Business

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

Money Lending Business

This is a relatively new business segment and the Group began to record the segment revenue since the second half of 2015. The management will continue to look for high quality borrowers in order to minimise the risk of default. The management has taken a cautious approach in money lending business in view of the Group's current financial position.

Other new businesses

The Group has been seeking investment opportunities from time to time to broaden the Group's sources of income. The Group has established new business divisions with the view to applying for licences to engage in securities trading and to engage in investment businesses. The Board considers that such diversification can reduce the Group's reliance on its oil and gas and food and beverages segments.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities, during the six months ended 30 June 2016.

CORPORATE GOVERNANCE PRACTICES

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

The Stock Exchange has promulgated the code provisions on Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "**CG Code**"). Throughout the six months ended 30 June 2016, the Group has complied with the provisions of the CG Code except for the following:

a. In relation to A.2.1 of the CG Code which states that 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 clearly established and set out in writing. At all times during the period under review, Mr. Zhao Guoqiang is the CEO. Before 25 January 2016, the position of chairman was vacated. On 25 January 2016, Mr. Wang Yongguang was appointed the chairman of the Company. However, on 27 July 2016, Mr. Wang Yongguang resigned as the chairman and a non-executive Director of the Company. Since then the position of the chairman of the Company is vacated. The Company will inform shareholders by way of announcement if there is suitable candidate to fill the vacancy.

b. 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 period 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.

c. In relation to A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend the annual general meeting of the Company. Dr. Gu Quan Rong, a non-executive director, and Mr. Zong Ketao, an independent non-executive director, were unable to attend the annual general meeting of the Company held on 30 June 2016 as they were out of town for other businesses.

d. In relation to I(f) of the CG Code, the Company should state the details of non-compliance with rule 3.10(1) and an explanation of the remedial steps taken to address non-compliance. Rule 3.10(1) provides that every board of directors of a listed issuer must include at least three independent non-executive directors. As announced by the Company on 25 January 2016, Mr. Wang Yongguang was redesignated as a non-executive director. Due to Mr. Wang's re-designation, (i) the number of independent non-executive directors had fallen below the minimum number of three as required under Rule 3.10(1) of the Listing Rules; (ii) the audit committee of the Company did not have a majority membership comprising independent non-executive directors as required under Rule 3.21 of the Listing Rules; and (iii) the remuneration committee of the Company did not have a majority membership comprising independent non-executive directors as required under Rule 3.25 of the Listing Rules. Following the appointments of Mr. Cheng Chun Ying and Mr. Lee Man Tai as independent non-executive directors and members of the audit committee and the remuneration committee of the Company on 26 January 2016, the Company had fulfilled (i) the requirement of minimum number of three independent non-executive directors under Rule 3.10(1) of the Listing Rules; (ii) the requirement of the audit committee of the Company comprising a majority of independent non-executive directors as required under Rule 3.21 of the Listing Rules; and (iii) the requirement of the remuneration committee of the Company comprising a majority of independent non-executive directors as required under Rule 3.25 of the Listing Rules.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, the recent changes in information of the directors are set out below:

Mr. Chui Kwong Kau has resigned as an Independent Non-executive Director of Aurum Pacific (China) Group Limited (stock code: 8148), which is listed on the Growth Enterprise Market ("**GEM**") of the Stock Exchange, with effect from 16 March 2016.

Subsequently, on 30 June 2016, Mr. Chui Kwong Kau retired as an executive Director of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 existing Directors have confirmed following specific enquiry by the Company that they have complied with the required standard set out in the Model Code through the period under review.

AUDIT COMMITTEE

The audit committee comprises one non-executive director and three independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited financial statements for the six months ended 30 June 2016 have been reviewed by the audit committee, who is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND REPORT

This interim 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 interim report of the Company for 2016 containing all information required by the Listing Rules will be dispatched to Shareholders and made available on the above websites in due course.

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

Hong Kong, 22 August 2016

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.