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 2017

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 2017 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 2017

		Unaudited six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**3,639**	782
Cost of sales		**(2,047)**	–
Other income	*4*	**380**	1,296
Staff costs		**(4,529)**	(5,340)
Operating lease rentals		**(2,175)**	(1,958)
Depreciation of property, plant and equipment		**(464)**	(391)
Fuel costs and utility expenses		**(64)**	(83)
Fair value gain/(loss) of financial assets held for trading		**918**	(6,177)
Other operating expenses		**(4,332)**	(5,492)
Finance costs		**(3,543)**	(2,826)
Loss before income tax	*5*	**(12,217)**	(20,189)
Income tax credits	*6*	**629**	574
Loss for the period		**(11,588)**	(19,615)

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2017

		Unaudited six months ended 30 June	
		2017	2016
	Notes	***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		**82,745**	(6,237)
Total comprehensive income for the period		**71,157**	(25,852)
Loss for the period attributable to:			
Owners of the Company		**(11,912)**	(19,615)
Non-controlling interests		**324**	–
		(11,588)	(19,615)
Total comprehensive income attributable to:			
Owners of the Company		**71,175**	(25,852)
Non-controlling interests		**(18)**	–
		71,157	(25,852)
Loss per share	*8*		
— Basic (HK cents)		**(0.13)**	(0.21)
— Diluted (HK cents)		**(0.13)**	(0.21)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	Unaudited 30 June 2017 HK$'000	Audited 31 December 2016 HK$'000
Non-current assets			
Property, plant and equipment	*9*	**32,115**	3,396
Exploration and evaluation assets	*10*	**417,638**	380,420
Intangible assets	*11*	**1,628,376**	1,571,240
Goodwill	*12*	**7,151**	–
Deferred tax assets		**90,155**	86,373
		2,175,435	2,041,429
Current assets			
Accounts receivables	*13*	**28,637**	26,235
Financial assets held for trading		**59,780**	58,862
Other receivables, deposits and prepayments		**14,721**	6,798
Cash and bank balances		**182,395**	203,719
		285,533	295,614
Total assets		**2,460,968**	2,337,043
Current liabilities			
Trade payables	*14*	**2,901**	–
Other payables and accruals		**467,782**	432,939
Amount due to a shareholder		**40,402**	40,402
		511,085	473,341
Net current liabilities		**(225,552)**	(177,727)
Total assets less current liabilities		**1,949,883**	1,863,702

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30 June 2017

	Notes	Unaudited 30 June 2017 HK$'000	Audited 31 December 2016 HK$'000
Non-current liabilities			
Convertible notes	*15*	**61,179**	58,039
		61,179	58,039
Net Assets		**1,888,704**	1,805,663
Equity			
Share capital		**475,267**	475,267
Reserves		**1,401,229**	1,330,396
Attributable to owners of the Company		**1,876,496**	1,805,663
Non-controlling interests		**12,208**	–
Total equity		**1,888,704**	1,805,663

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 ended 30 June 2017, the Group has incurred a loss of HK$11,588,000 (2016: HK$19,615,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$225,552,000 (31 December 2016: HK$177,727,000). In addition, as detailed below, if the charge results in a conviction and the Petroleum Contract is voidable, the Group may not be able to exercise its rights under the Petroleum Contract. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

As further explained in Note 16 to this announcement, the directors of the Company was informed that Mr. Wang Guoju was formally charged by prosecution authorities in the PRC for undertaking illegal operations (the "Charge"), possibly involving allegations about improper conduct in obtaining the Petroleum Contract with China National Petroleum Corporation ("CNPC") in relation to the drilling, exploration, exploitation and production of oil and natural gas in North Kashi Block, Tarim Basin in the PRC. After taking into account of a legal opinion obtained by the Group from its PRC legal advisers, the directors of the Company consider that the Charge has yet to reach the judgment stage as at 30 June 2017 and up to the current date, and that the directors of the Company is not in the position to assess its possible impact on the Group's oil and gas operation and financial position. According to the legal opinion from the Group's PRC legal advisers, the Group may not be able to exercise its right under the Petroleum Contract if Mr. Wang Guoju is found guilty for improper conduct in obtaining the Petroleum Contract which might render the contract voidable. However, the directors consider that they have long-term and regular working relationship with CNPC and up to now, did not receive any notification from CNPC declaring the Petroleum Contract voidable, and so they expected that the Petroleum Contract will continue to be valid and will be executed as planned.

As at 30 June 2017, the directors are still negotiating the Gas Sales Agreements ("GSA") with CNPC and expect that the negotiation should complete in the year 2017. The GSA with CNPC covers a number of provisions, such as terms of the GSA, quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point etc. The key outstanding point which the Group has yet to agree with CNPC is the unit price of gas. The natural gas pricing reform which reformed pricing mechanism on natural gas is a major reference point for the Group to negotiate the pricing terms with CNPC.

The Group has been carrying out exploration and evaluation activities at the site and working with professional parties to prepare the data and information that are required for the Overall Development Program ("ODP") for government approval before full production could be started. As at 30 June 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 this announcement, the Company has yet to sign another proposal with CNPC which covers the natural gas from pilot-production which was extracted and delivered during the years ended 31 December 2016 and 2015. However, the unit price in the preliminary sharing proposals is only a preliminary unit price used for preliminary sharing. The final unit price is still subject to change and could only be confirmed after the formal GSA signed. Up to the date of approval of these consolidated financial statements, the Group has not yet received the proceeds as agreed in the preliminary sharing proposals, and the directors has yet to fix the payment schedule with CNPC.

The Group's current liabilities as at 30 June 2017 are mainly attributable to exploration and evaluation cost payables amounting to HK$406,845,000 (31 December 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 should be able to successfully persuade these contractors not to insist repayment of the construction costs until CNPC has settled the proceeds as agreed in the preliminary gas sharing proposals. However, there is no certainty that these contractors will not demand repayment before the Company receive the proceeds from CNPC.

In view of the net current liabilities position and the Charge, the directors have carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) the Petroleum Contract continues to be valid; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 30 June 2018; (iii) the Group will be able to successfully persuade contractors not to insist repayment of the construction cost payables before the Company receives the proceeds from the preliminary gas sharing proposals from CNPC; and (iv) the Group will be able to raise adequate funding through equity fund raising. Taking into account the above assumptions, the directors of the Company consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 30 June 2017.

As disclosed in Note 16 to this announcement, in compliance with the terms attached to the injunction order, in order for the Company to proceed with possible equity fund raising, the Company will need to apply for leave of the Cayman Court to consent to the possible equity fund raising.

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

c. Functional and presentation currency

The 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 2016. 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 2016 with addition to the following accounting policies and 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 2017. 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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, Production and Distribution 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 2017 and 2016 are as follows:

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

	Exploration, Production and Distribution *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 2017				
Revenue from external customers	**3,323**	**–**	**316**	**3,639**
Reportable segment (loss)/profit before tax expenses	**(4,947)**	**(909)**	**251**	**(5,605)**
Segment results included:				
Interest income	**4**	**–**	**–**	**4**
Interest expense	**(403)**	**–**	**–**	**(403)**
Depreciation of property, plant and equipment	**(341)**	**(123)**	**–**	**(464)**
Reportable segment assets	**2,190,456**	**34,196**	**27,746**	**2,252,398**
Reportable segment liabilities	**(467,970)**	**(16)**	**–**	**(467,986)**

	Exploration, Production and Distribution *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 before tax expenses	(4,447)	(787)	780	(4,454)
Segment results included:				
Depreciation of property, plant and equipment	268	123	–	391
Reportable segment assets	2,222,405	1,738	–	2,224,143
Reportable segment liabilities	(443,521)	–	–	(443,521)

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

	Unaudited six months ended 30 June 2017 *HK$'000*	2016 *HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(5,605)**	(4,454)
Other income	**560**	502
Fair value gain/(loss) of financial assets held for trading	**918**	(6,177)
Finance costs	**(3,140)**	(2,826)
Unallocated head office and corporate expenses	**(4,950)**	(7,234)
Loss before income tax	**(12,217)**	(20,189)

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Assets		
Reportable segment assets	**2,252,398**	2,086,939
Other receivables, deposits and prepayments	**1,268**	1,885
Financial assets held for trading	**59,780**	58,862
Unallocated head office and corporate assets	**147,522**	189,357
Total assets	**2,460,968**	2,337,043

	Unaudited 30 June 2017	Audited 31 December 2016
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**467,986**	429,255
Convertible notes	**61,179**	58,039
Amount due to a shareholder	**40,402**	40,402
Unallocated head office and corporate liabilities	**2,697**	3,684
Total liabilities	**572,264**	531,380

4. OTHER INCOME

	Unaudited six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Dividend income from financial assets held for trading	**325**	–
Exchange gain	**–**	502
Gain on disposal of subsidiaries (note 17)	**–**	776
Other	**55**	18
	380	1,296

5. LOSS BEFORE INCOME TAX

	Unaudited six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Depreciation of property, plant and equipment	**464**	391
Staff costs (including directors remuneration)		
— Wages and salaries and other benefits	**4,499**	5,294
— Pension fund contributions	**30**	46
	4,529	5,340
Operating lease rentals	**2,175**	1,958

6. INCOME TAX CREDITS

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

	Unaudited six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Deferred tax	**629**	574

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.

7. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2017 (2016: 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	
	2017	2016
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**11,912**	19,615
	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	**0.13**	0.21

(b) Diluted

Diluted loss per share is the same as basic loss per share for six months period ended 30 June 2017 and 2016 as the potential ordinary shares on convertible notes are anti-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of approximately HK$28,582,000 (2016: Nil) of which HK$28,299,000 of property plant and equipment were acquired through the acquisition of subsidiaries (note 18) (2016: Nil).

10. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2017, the Group did not purchase any exploration and evaluation assets (2016: Nil).

11. INTANGIBLE ASSETS

As at 30 June 2017, 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 2017 and 2016. No impairment loss of intangible assets was recognised during the six months period ended 30 June 2017 and 2016.

The actual volume of gas production of Kashi Project has increased to 113,018,000 (six months period ended 30 June 2016: 88,720,000) cubic meters. As a result, no impairment loss of intangible assets was recognised during the six months period ended 30 June 2017.

The pre-tax discount rates used for value in use calculation is 21.7% and 19.5% for the six months ended 30 June 2017 and 2016 respectively.

12. GOODWILL

	HK$'000
Carrying amount at 1 January 2017	–
Acquisition of subsidiaries (note 18)	7,151
Carrying amount at 30 June 2017	7,151

The goodwill is attributable mainly to the skills and technical talent of the workforce in the subsidiaries being acquired during the period and the synergies expected to be achieved from integrating these subsidiaries into the Group's existing natural resources segement.

13. ACCOUNTS RECEIVABLES

	The Group	
	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
Trade receivables *(note a)*	**891**	–
Loan and interest receivables in money lending business *(note b)*	**27,746**	26,235
	28,637	26,235

Note:

(a) An ageing analysis of trade receivables of the Group is as follows:

	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
1 – 90 days	**891**	–

(b) As at 30 June 2017, the loan receivables with principal amounts of HK$27,500,000 (31 December 2016: HK$26,000,000) and related interest receivables of HK$246,000 (31 December 2016: HK$235,000) were due from an independent third party.

The balance was neither past due nor impaired.

14. TRADE PAYABLES

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

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
121 – 365 days	**2,901**	–

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 *HK$'000*	**Equity component** *HK$'000*
At 31 December 2016 and 1 January 2017	58,039	695,828
Interest expenses	3,140	–
As 30 June 2017	61,179	695,828

16. 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 has yet to reach the trial stage, the Board is not in the position to assess the possible impact on the Group's oil and gas operation and financial position. 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.

17. 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)

18. ACQUISITION OF SUBSIDIARIES

On April 2017, the Group completed the acquisition of certain subsidiaries in Karamay, the PRC, which are principally engaged in investment in natural gas pipeline and trading of natural gas in Xinjiang Province. The fair values of the identifiable assets and liabilities of the subsidiaries as at the date of acquisition were as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment (note 9)	28,299
Cash and bank balances	1,815
Trade receivables	716
Other receivables, deposits and prepayments	959
Trade payables	(2,794)
Other payables and accruals	(12,986)
Total identifiable net assets at fair value	16,009
Non-controlling interest measured at fair value	(11,884)
Goodwill on acquisition (note 12)	7,151
Purchase consideration transferred	11,276

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration paid	(11,276)
Cash and bank balances acquired	1,815
Net outflow of cash and cash equivalents included in cash flows from investing activities	(9,461)

Note:

The Group has agreed to the Vendor of these subsidiaries an additional RMB6,000,000 ("Second Consideration") and RMB16,000,000 ("Third Consideration") would be paid if the total natural gas output reached 150,000 cubic meter per day ("First Target") and 300,000 cubic meter per day ("Second Target") from the operation before 31 December 2017 and 30 June 2018, respectively.

In any event that the designated gas output cannot be reached, the Second Consideration and the Third Consideration should be deducted proportionally in accordance with an agreed formula.

According to the agreement, both the Group and the Vendor retained an option to dispose the subsidiaries back to the Vendor if the First Target or the Second Target cannot be reached at 31 December 2017 and 30 June 2018, respectively.

If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue of the Group would have been HK$11,309,000, and consolidated loss of the Group for the period would have been HK$10,599,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the six months period under review, the Group recorded the turnover of approximately HK$3,639,000 (2016: HK$782,000). The Group's turnover was derived from the money lending business segment of HK$316,000 (2016: HK$782,000) and the exploration, production and distribution segment of HK$3,323,000 (2016: Nil). The sales of food and beverages segment did not contribute any revenue to the Group during the period under review (2016: Nil).

The Group recorded a loss for the six months period attributable to the owners of the Company of approximately HK$11,912,000, compared to a loss of approximately HK$19,615,000 during the corresponding period in 2016. The decrease in loss were mainly due to the increase of HK$918,000 in fair value gain of financial assets held for trading during the period under review whereas there was a loss of HK$5,340,000 recorded for corresponding period in 2016. Loss per share attributable to the owners of the Company was 0.13 HK cents (2016: 0.21 HK cents).

Business Review

Exploration, Production and Distribution Segment

During the period ended 30 June 2017, the Group acquired an effective interests of 26.01% in a subsidiary in Karamay, Xinjiang through two layers of 51% owned subsidiaries. The operating entity is principally engaged in investment in natural gas pipeline and trading of natural gas in Xinjiang province. The operation contributed revenue of approximately HK$3,323,000 since acquisition. The acquisition strengthened the natural resources position in Xinjiang area and further enhanced our reach to the downstream operations. The diversified operations will enhance 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, as further disclosed in the note headed "Litigation" in this report.

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 report, 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 at the date of this report, 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. 113,018,000 (six months period ended 30 June 2016: 88,720,000) cubic meters of gas was extracted during the six months ended 30 June 2017. 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 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 11,489 (31 December 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 period, this operation 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$4,947,000 (six months period ended 30 June 2016: HK$4,447,000). During the period, no impairment loss of intangible assets was recognised. 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, production and distribution 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 segment

	Unaudited six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Revenue	**3,323**	–
Cost of sales	**(2,047)**	–
Operating expenses	**(5,479)**	(4,179)
Depreciation	**(341)**	(268)
Finance cost	**(403)**	–
Results of operations before income tax expenses	**(4,947)**	(4,447)

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

	Unaudited six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Exploration cost	**–**	–

Sales of Food and Beverages Business

For the six month ended 30 June 2017, the Group did not record any revenue from the sales of food and beverages business segment (2016: Nil). The segment loss before tax expenses was approximately HK$909,000 (2016: loss of HK$787,000). No revenue was recorded during the period was mainly due to the Group's intention to reduce reliance on the sales of food and beverage. We will continue to keep track of the economic environment and review the future allocation of resources as and when required.

Money Lending Business

For the six months ended 30 June 2017, 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$316,000 (2016: HK$782,000). The segment profit before tax expenses was approximately HK$251,000 (2016: HK$780,000). 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 the corresponding period in 2016.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2017, the Group had no outstanding interest-bearing borrowings (31 December 2016: Nil). The cash and cash equivalents of the Group were approximately HK$182,395,000 (31 December 2016: HK$203,719,000). The Group's current ratio (current assets to current liabilities) was approximately 55.9% (31 December 2016: 62.5%). The ratio of total liabilities to total assets of the Group was approximately 23.3% (31 December 2016: 27.7%).

As at 30 June 2017, 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 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$283,089,000 as at 30 June 2017 (31 December 2016: HK$247,177,000).

Contingent Liabilities

Save as any contingent liabilities which may arise from any of the litigations disclosed in this report, the Group had no other material contingent liabilities as at 30 June 2017 and 2016.

Employee Information

As at 30 June 2017, the Group had a total workforce of 32 (2016: 18). The increase in our workforce was mainly due to the acquisition of subsidiaries during the current period. The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Prospects

Exploration, Production and Distribution

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.

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 assess the value and performance of this segment from time to time, and continue to keep track of the economic environment and review the future allocation of resources as and when required.

Money Lending Business

The Group established this new segment in 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. During the period under review, the Group has acquired new business in exploration, production and distribution business which improved the Group's revenue stream. The Board considers that such diversification can reduce the Group's reliance on the Kashi Project and the money leading business.

OTHER INFORMATION

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 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. At all times during the period under review, Mr. Zhao Guoqiang is the CEO of the Company. Following the resignation of Mr. Wang Yongguang on 27 July 2016, 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. Following the resignation of Mr. Wang on 27 July 2016, 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 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.

d. In relation to A.6.7 of the CG Code, independent non–executive directors and other non–executive directors should attend the Company's AGM. Dr. Gu Quan Rong, Ms. Ngan Mei Ying, Mr. Cheng Chun Ying and Mr. Zong Ketao were unable to attend the Company's AGM held on 19 May 2017 due to other business commitments.

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 two 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 2017 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 2017 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, 31 August 2017

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