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 2018

The board (the "**Board**") of directors (the "**Directors**") 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 2018 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 2018

		Unaudited six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**342,939**	3,639
Cost of inventories sold		**(2,117)**	(2,047)
Other income	4	**689**	380
Staff costs		**(6,739)**	(4,529)
Operating lease rentals		**(1,840)**	(2,175)
Depreciation of property, plant and equipment		**(1,991)**	(464)
Amortisation of intangible assets	12	**(110,165)**	–
Fuel costs and utility expenses		**(78)**	(64)
Fair value (loss)/gain of financial assets held for trading		**(3,851)**	918
Other operating expenses		**(6,341)**	(4,332)
Finance costs		**(3,813)**	(3,543)
Profit/(loss) before income tax	5	**206,693**	(12,217)
Income tax (charge)/credit	6	**(83,885)**	629
Profit/(loss) for the period		**122,808**	(11,588)

* *For identification purposes only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the six months ended 30 June 2018

	Notes	Unaudited six months ended 30 June **2018** *HK$'000*	2017 *HK$'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations attributable to:			
Owners of the Company		**(21,781)**	82,745
Non-controlling interests		**1,448**	–
Total comprehensive income for the period		**102,475**	71,157
Profit/(loss) for the period attributable to:			
Owners of the Company		**124,175**	(11,912)
Non-controlling interests		**(1,367)**	324
		122,808	(11,588)
Total comprehensive income attributable to:			
Owners of the Company		**102,394**	71,175
Non-controlling interests		**81**	(18)
		102,475	71,157
Earnings/(loss) per share	*8*		
— Basic (HK cents)		**1.31**	(0.13)
— Diluted (HK cents)		**0.94**	(0.13)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	**Unaudited 30 June 2018 HK$'000**	Audited 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment	9	**29,010**	31,178
Investment properties	10	**68,449**	–
Exploration and evaluation assets	11	**380,968**	369,087
Intangible assets	12	**1,404,952**	1,523,512
Goodwill		**1,202**	1,151
Deferred tax assets		**18,388**	99,673
		1,902,969	2,024,601
Current assets			
Account receivables	13	**325,953**	–
Financial assets held for trading		**70,689**	74,540
Other receivables, deposits and prepayments		**76,603**	78,412
Cash and bank balances		**84,688**	171,926
		557,933	324,878
Total assets		**2,460,902**	2,349,479
Current liabilities			
Other payables and accruals		**540,619**	536,902
Amount due to a shareholder		**40,625**	40,626
Amounts due to non-controlling interests		**6,107**	6,222
Bank borrowings	14	**1,858**	–
		589,209	583,750
Net current liabilities		**(31,276)**	(258,872)
Total assets less current liabilities		**1,871,693**	1,765,729

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30 June 2018

	Notes	**Unaudited 30 June 2018** *HK$'000*	Audited 31 December 2017 *HK$'000*
Non-current liabilities			
Convertible notes	*15*	**67,978**	64,489
		67,978	64,489
Net Assets		**1,803,715**	1,701,240
Equity			
Share capital		**475,267**	475,267
Reserves		**1,316,587**	1,214,193
Attributable to owners of the Company		**1,791,854**	1,689,460
Non-controlling interests		**11,861**	11,780
Total equity		**1,803,715**	1,701,240

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 2018, the Group has incurred a profit of HK$122,808,000 (2017: loss of HK$11,588,000) and at the end of reporting period, its current liabilities exceeded its current assets by HK$31,276,000 (31 December 2017: HK$258,872,000). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

As at 30 June 2018, the Directors are still negotiating the Gas Sales Agreements ("GSA") with China National Petroleum Corporation ("CNPC") and expect that the negotiation will complete in the year 2018. The GSA with CNPC covers a number of provisions, such as terms of the GSA, quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point, etc. The key outstanding point which the Group has yet to agree with CNPC is the unit price of gas. The natural gas pricing reform which reformed pricing mechanism on natural gas is a major reference point for the Group to negotiate the pricing terms with CNPC.

Significant progress has been made on the negotiation of GSA during the period, the Group have conducted several rounds of negotiation with CNPC mainly focused on the detail of the GSA including the pricing mechanism of the gas being sold by CNPC. After taking into account of the PRC legal opinion, although the GSA has not been signed up to the date of the report, with the selling price information and other documents exchanged between CNPC and the Group, the Company now has high certainty to receive relevant amount from the CNPC. We have therefore recognised the revenue generated from the production sharing contract during the current period.

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 2018, 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 approval should be obtained in the year 2018. The development period should start immediately after obtaining relevant government approval.

As an interim measure before the signing of the GSA, a preliminary natural gas sharing proposal was discussed and agreed by the joint management committee of Kashi project (comprising representatives of CNPC and the Group) on 18 February 2014 (the "Proposal"). Based on the Proposal, the Group will receive the proposed distribution of natural gas from pilot-production which was extracted and delivered before 1 January 2014. A second natural gas sharing proposal was discussed and agreed by the joint management committee on 3 March 2015 (the "2nd Proposal") which covered the natural gas from pilot-production which was extracted and delivered during the year ended 31 December 2014. Up to the date of approval of these consolidated financial statements, the Company has yet to sign another proposal with CNPC which covers the natural gas from pilot-production which was extracted and delivered after 31 December 2014. Up to the date of approval of these consolidated financial statements, the Group has not yet received the proceeds as agreed in the preliminary sharing proposals, and the Directors have yet to fix the payment schedule with CNPC.

The Group's current liabilities as at 30 June 2018 are mainly attributable to exploration and evaluation cost payables amounting to HK$432,209,000 (31 December 2017: HK$421,119,000). 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 are of the view that the Group will be able to successfully persuade these contractors not to insist on repayment of the construction costs until CNPC has settled the proceeds as agreed in the preliminary gas sharing proposals. However, there is no certainty that these contractors will not demand repayment before the Company receive the proceeds from CNPC.

In view of the net current liabilities position, the Directors have carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) the ODP will be approved before 31 December 2018 and the development stage and commercial production of the natural gas field will be commenced after obtaining relevant approval; (ii) CNPC will pay the proceeds as agreed in the preliminary gas sharing proposals before 30 June 2019; (iii) the Group will be able to successfully persuade contractors not to insist on repayment of the construction cost payables before the Company receives the proceeds from the preliminary gas sharing proposals from CNPC; and (iv) the Group will be able to raise adequate funding through bank borrowings. Taking into account the above assumptions, the directors of the Company consider the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 30 June 2018.

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 2017. 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 2017 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 2018. 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.

Investment Properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income or for capital appreciation or for both but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are recognised in the profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year of the retirement or disposal

When the Group holds a property interest under an operating lease to earn rental income or for capital appreciation, or for both purpose, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

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 of Natural Gas 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 2018 and 2017 are as follows:

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

	Exploration, Production and Distribution of Natural Gas *HK$'000*	**Sales of Food and Beverages Business** *HK$'000*	**Money Lending Business** *HK$'000*	**Total** *HK$'000*
For the six months ended 30 June 2018				
Revenue from external customers	**342,934**	**–**	**5**	**342,939**
Reportable segment profit/(loss) before tax expenses	**219,536**	**(1,007)**	**(106)**	**218,423**
Segment results included:				
Interest income	**5**	**16**	**–**	**21**
Interest expense	**(324)**	**–**	**–**	**(324)**
Amortisation of intangible assets	**(110,165)**	**–**	**–**	**(110,165)**
Depreciation of property, plant and equipment	**(1,840)**	**(123)**	**–**	**(1,963)**
Reportable segment assets	**2,182,499**	**11,739**	**20**	**2,194,258**
Reportable segment liabilities	**(513,780)**	**(25)**	**–**	**(513,805)**

	Exploration, Production and Distribution of Natural Gas *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Money Lending Business *HK$'000*	Total *HK$'000*
For the 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)

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

	Unaudited six months ended 30 June **2018** *HK$'000*	2017 *HK$'000*
Profit/(loss) before income tax		
Reportable segment profit/(loss) before income tax	**218,423**	(5,605)
Other income	**623**	560
Fair value (loss)/gain of financial assets held for trading	**(3,851)**	918
Finance costs	**(3,489)**	(3,140)
Unallocated head office and corporate expenses	**(5,013)**	(4,950)
Profit/(loss) before income tax	**206,693**	(12,217)

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Assets		
Reportable segment assets	**2,194,258**	2,073,865
Investment properties	**68,449**	–
Other receivables, deposits and prepayments	**63,035**	64,553
Financial assets held for trading	**70,689**	74,540
Unallocated head office and corporate assets	**64,471**	136,521
Total assets	**2,460,902**	2,349,479

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Liabilities		
Reportable segment liabilities	**513,805**	506,419
Convertible notes	**67,978**	64,489
Amount due to a shareholder	**40,402**	40,402
Unallocated head office and corporate liabilities	**35,002**	36,929
Total liabilities	**657,187**	648,239

4. OTHER INCOME

	Unaudited six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Dividend income from financial assets held for trading	**–**	325
Exchange gain, net	**155**	–
Others	**534**	55
	689	380

5. PROFIT/(LOSS) BEFORE INCOME TAX

	Unaudited six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Profit/(loss) before income tax is arrived at after charging:		
Depreciation of property, plant and equipment	**1,991**	464
Amortisation of intangible assets	**110,165**	–
Staff costs (including directors remuneration)		
— Wages and salaries and other benefits	**6,709**	4,499
— Pension fund contributions	**30**	30
	6,739	4,529
Operating lease rentals	**1,840**	2,175

6. INCOME TAX CHARGE/(CREDIT)

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

	Unaudited six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Deferred tax charge/(credit)	**83,885**	(629)

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

7. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2018 (2017: Nil), nor has any dividend been proposed since the end of reporting period.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic

Basic earnings/(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	
	2018	2017
	HK$'000	*HK$'000*
Earnings/(loss) attributable to owners of the Company	**124,175**	(11,912)
	Number of Shares	
Weighted average number of ordinary shares in issue	**9,505,344,000**	9,505,344,000
	HK Cents	
Basic earnings/(loss) per share	**1.31**	(0.13)

(b) Diluted

The calculation of the diluted earnings per share attributable to the equity owners of the Company for the six months ended 30 June 2018 is based on the following data:

	Unaudited six months ended 30 June 2018
	HK$'000
Profit attributable to equity owners of the Company	**124,175**
Adjustments for interest on convertible notes	**3,489**
Profit attributable to equity owners of the Company for diluted earnings per share	**127,664**
	Number of shares
Weighted average number of ordinary shares in issue	**9,505,344,000**
Effect of dilutive potential ordinary shares on convertible notes	**4,045,654,761**
Weighted average number of ordinary shares for diluted earnings per share	**13,550,998,761**
	HK Cents
Diluted earnings per share	**0.94**

For the six months ended 30 June 2017, diluted loss per share is the same as basic loss per share as the potential ordinary shares on convertible notes are anti-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group did not acquire any property, plant and equipment (2017: HK$28,582,000 of which HK$28,299,000 of property plant and equipment were acquired through the acquisition of subsidiaries (note 17)).

10. INVESTMENT PROPERTIES

During the six months ended 30 June 2018, the Group acquired two residential units and two car parking spaces located in Hong Kong at total consideration of HK$68,449,000 (2017: Nil).

11. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2018, the Group purchased exploration and evaluation assets of approximately HK$15,009,000 (2017: Nil).

12. INTANGIBLE ASSETS

As at 30 June 2018, the interest in the petroleum production sharing contract acquired in previous years in relation to the acquisition of subsidiaries was recognised as intangible assets at costs. For the six months ended 30 June 2018, amortisation of HK$110,165,000 was provided and is amortised under unit of production method. No amortisation was provided for the six months ended 30 June 2017.

The actual volume of gas production of Kashi Project has increased to 122,500,000 (six months ended 30 June 2017: 113,018,000) cubic meters. As a result, no impairment loss of intangible assets was recognised during the six months ended 30 June 2018 (2017: Nil).

The pre-tax discount rates used for value in use calculation is 23.1% and 21.7% for the six months ended 30 June 2018 and 2017 respectively.

13. ACCOUNT RECEIVABLES

	The Group	
	Unaudited	Audited
	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
Account receivables	**325,953**	–

Account receivables represent the receivables recognised under the production sharing contract with CNPC for the Group's operation in Kashi, the PRC. The Group first recognise the revenue in relation to this operation during the current period. The entire balance of account receivables as at 30 June 2018 are neither past due nor impaired. The Group did not hold any collateral over the balance.

Account receivables are non-interest-bearing and pledged to secure the bank borrowings of the Group.

14. BANK BORROWINGS

	Unaudited	Audited
	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
Secured bank borrowings – current	**1,858**	–

The bank borrowings are denominated in RMB, charged at an interest rate of 4.25% per annum and pledged by the account receivables of the Group (note 13).

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 the Totalbuild Transaction (the "**Vendor**") to be the allottee of such bonds. In accordance with the terms of the 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 the 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 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 2017 and 1 January 2018	64,489	695,828
Interest expenses	3,489	–
As 30 June 2018	67,978	695,828

16. LITIGATION

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

As disclosed in the Company's announcement dated 27 December 2017, following the signing of the Supplemental Contract with CNPC on 6 December 2017, the Company was informed by Mr. Wang Guoju and his legal representative that the Illegal Operation Charge against Mr. Wang Guoju was acquitted. On that basis and after taking legal advice from the Company's legal advisers, the Company has on 27 December 2017 reached settlement with the Defendants pursuant to which the Company will apply to the Cayman Court for discontinuance of the Litigation, as a result of which the Injunction Order and the Company's Undertaking would be discharged.

As disclosed in the Company's announcement dated 23 May 2018, on 10 May 2018, a Consent Order was granted by the Cayman Court regarding the discontinuation of the Litigation and the discharge of the Injunction Order and the Company's Undertaking, such that the Defendants should no longer be restrained in respect of the Restrained Shares and the Restrained CBs and the Company should no longer be restrained from issuing or dealing with additional Shares or securities in the Company.

17. ACQUISITION OF SUBSIDIARIES

On 24 April 2017, the Group completed the acquisition of Di Maria Group, which in turn owns an indirect controlling equity interest in Karamay Weirun Gas Co., Ltd. (克拉瑪依偉潤燃氣有限公司), which is principally engaged in distribution of natural gas in Xinjiang.

The fair value of identifiable assets and liabilities of Di Maria Group as at the date of acquisition were:

	Di Maria Group
	HK$'000
Identifiable net assets:	
Property, plant and equipment	28,299
Trade and other receivables	1,675
Cash and cash equivalents	1,815
Trade and other payables	(15,780)
Total identifiable net assets at fair value	16,009
Non-controlling interest	(11,884)
	4,125
Goodwill	7,151
Settled by cash	11,276

	Di Maria Group
	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	11,276
Cash and cash equivalents acquired	(1,815)
	9,461

Note:

Pursuant to the sale and purchase agreement between the Group and the vendor of Di Maria Group (the "**Vendor**"), the Group paid RMB10,000,000 (equivalent to HK$11,276,000) as the consideration for the acquisition of Di Maria Group. Under the terms of the sale and purchase agreement, additional RMB 6,000,000 ("**Second Consideration**") and RMB16,000,000 ("**Third Consideration**") would be paid if the total natural gas distributed reached 150,000 cubic meter per day ("**First Target**") and 300,000 cubic meter per day ("**Second Target**") 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. Both of the Group and the Vendor have not exercise the options and the options lapsed.

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 six months ended 30 June 2017 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 30 June 2018 under review, the Group recorded the turnover of approximately HK$342,939,000 (2017: HK$3,639,000). The Group's turnover was principally derived from the exploration, production and distribution of natural gas segment of HK$342,934,000 (2017: HK$3,323,000). During the period under review, the money lending business segment only contributed revenue of HK$5,000 (2017: HK$316,000), and the sales of food and beverages segment contribute nil (2017: Nil) revenue to the Group.

The Group recorded a profit attributable to the owners of the Company of approximately HK$124,175,000 for the six months 30 June 2018, compared to a loss of approximately HK$11,912,000 during the corresponding period in 2017. The significant increase was mainly due to the revenue recognition of natural gas sales under the Group's oil and gas project at North Kashi Block, Tarim Basin, Xingjiang, PRC (the "**Kashi Project**") during the period. Profit per share attributable to the owners of the Company was 1.31 HK cents (2017: loss of 0.13 HK cents per share).

Business Review

Exploration, Production and Distribution of Natural Gas Segment

The Group's wholly-owned subsidiary, Totalbuild Investments Group (Hong Kong) Limited and its subsidiaries ("**Totalbuild Investments Group**") entered into a petroleum contract (the "**Petroleum Contract**") with CNPC for the drilling, exploration, exploitation and production of oil and/or natural gas under the Kashi Project. The term of the Petroleum Contract is for a term of 30 years commencing on 1 June 2009.

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 ODP. ODP is a document that is required to be approved by the relevant government authorities before the development can commence. ODP comprises a formal development engineering plan, backed up by survey results and relevant studies, together with a full economic analysis and time schedule of the development operations. However, there was delay in finalising the ODP documentation and the preparation of formal reserve report.

Up to the date hereof, no GSA has been signed with CNPC, and the ODP has not been finalised. 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. On 6 December 2017, China Era Energy Power Investment (Hong Kong) Limited ("**China Era**") (an indirect wholly owned subsidiary of the Company) and CNPC entered into a supplemental and amendment contract to the Petroleum Contract (the "**Supplemental Contract**") extending the First Phase exploration period to 5 December 2017 (i.e. the day immediately preceding the date of the Supplemental Contract). The terms of the Supplemental Contract further provided that (inter alia): (1) China Era has satisfied the investment commitment in respect of the First Phase exploration period; (2) the Petroleum Contract shall proceed to the Second Phase exploration period on the effective date of the Supplemental Contract of 6 December 2017; and (3) the costs incurred by CNPC on Kashi Project between 1 June 2009 and 5 December 2017 shall be aggregated with the pre-contract costs incurred by CNPC on the project. The costs incurred between 1 June 2009 and 31 December 2015 was in the amount of RMB651,653,000 (mainly including three completed wells, reconstruction of natural gas processing plant and the operating costs incurred during the period), and the costs incurred by CNPC between 1 January 2016 and 5 December 2017 shall be confirmed by both parties within 12 months after the effective date of the Supplemental Contract. All the costs incurred by CNPC shall be recovered in kind out of the crude oil/natural gas produced from any oil/gas field inside the cooperation site. Save as the changes expressly stated in the Supplemental Contract, the other terms and conditions of the Petroleum Contract shall remain unchanged.

Since the acquisition of Totalbuild Investments Group, pilot productions were carried out at the site. 122.5 million cubic metres ("**MMm^3**") of natural gas was extracted during the six months ended 30 June 2018 (six months ended 30 June 2017: 113 MMm^3). 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 of Kashi Project was and will be sold by CNPC to the local customers near the site area.

As at 30 June 2018, the acquired oil/gas field has estimated contingent resources of approximately 47.4 thousand barrels ("**Mbbl**") of oil (31 December 2017: 47.4 Mbbl) and approximately 11,484 MMm^3 of natural gas (31 December 2017: 11,544 MMm^3), based on Group's 49% net entitlement interests in the 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 together with the natural gas distribution operation in Karamay, Xinjiang contributed revenue of HK$342,934,000 (six months ended 30 June 2017: HK$3,323,000) and the segment profit before income tax was approximately HK$219,536,000 (six months ended 30 June 2017: loss of HK$4,947,000). During the period, amortisation of HK$110,165,000 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 of natural gas segment and costs incurred for exploration and evaluation assets acquisition and exploration activities are shown as below:

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

	Unaudited six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Revenue	**342,934**	3,323
Cost of sales	**(2,117)**	(2,047)
Operating expenses	**(8,952)**	(5,479)
Amortisation	**(110,165)**	–
Depreciation	**(1,840)**	(341)
Finance cost	**(324)**	(403)
Profit/(loss) from operations before income tax expenses	**219,536**	(4,947)

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

	Unaudited six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Exploration cost	**15,009**	–

Sales of Food and Beverages Business

For the six month ended 30 June 2018, the Group did not record any revenue from the sales of food and beverages business segment (2017: Nil). The segment loss before tax expenses was approximately HK$1,007,000 (2017: HK$909,000). 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 2018, 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$5,000 (2017: HK$316,000). The segment loss before tax expenses was approximately HK$106,000 (2017: profit of HK$251,000). 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 2017.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2018, the Group had outstanding secured bank borrowings of HK$1,858,000 (31 December 2017: Nil). The cash and cash equivalents of the Group were approximately HK$84,688,000 (31 December 2017: HK$171,926,000). The Group's current ratio (current assets to current liabilities) was approximately 94.7% (31 December 2017: 55.7%). The ratio of total liabilities to total assets of the Group was approximately 26.7% (31 December 2017: 27.6%).

As at 30 June 2018, 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 but in May 2018, a Consent Order was granted by the Cayman Court regarding the discontinuation of the Litigation, as further disclosed in the note "Litigation" in this announcement.

Charge of Assets

Account receivables of the amount HK$325,953,000 as at 30 June 2018 were pledged as security for bank borrowings granted to the Group.

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2017.

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$263,957,000 as at 30 June 2018 (31 December 2017: HK$265,154,000).

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 2018 and 31 December 2017.

Employee Information

As at 30 June 2018, the Group had a total workforce of 38 (31 December 2017: 35). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Prospects

Exploration, Production and Distribution of Natural Gas

Subsequent to the signing of the Supplemental Contract to extend the exploration period and the settlement of the Litigation with the vendors of Kashi Project, significant progresses were made on Kashi Project during the first half of 2018, including the obtaining of a new RMB 100 million banking facilities secured by the account receivable under the Petroleum Contact, the internal approval stage of the ODP and the final negotiation of GSA. Further details of the business update on the Kashi Project are disclosed in the Company's announcement dated 23 August 2018.

During the first half of 2018, the Company received more detailed operating figures of Kashi Project and, for the first time since the completion of the acquisition, recognize revenue for Kashi Project in the Group's financial statements during the six months ended 30 June 2018. The recognition of revenue for Kashi Project has greatly improved the Group's current assets/liabilities position because the receivables from CNPC has now formed part of the Company's current assets.

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

During the second half of 2018, the Company's management intends to continue to follow up with CNPC with the view to expediting the ODP process and GSA signing thereby accelerating the commencement of commercial production of Kashi Project, and continue to follow up with potential lenders and investors with the view to secure additional debt and/or equity funding. Further announcement(s) will be made by the Company as and when there is any significant progress of the Kashi 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 six months ended 30 June 2017, 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**"). During the six months ended 30 June 2018, the Group has complied with the CG Code 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 suitable 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 suitable 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, Mr. Lee Man Tai and Mr. Zong Ketao were unable to attend the Company's AGM held on 31 May 2018 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 directors and three independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited financial statements for the six months ended 30 June 2018 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 the six months ended 30 June 2018 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, 30 August 2018

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