**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 2019

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 2019 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 2019*

| | | **Unaudited six months ended 30 June** | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *3* | **82,834** | 342,939 |
| Cost of inventories sold | | **(6,991)** | (2,117) |
| Other income | *4* | **1,372** | 689 |
| Selling and distributing expenses | | **(37,770)** | – |
| Staff costs | | **(5,987)** | (6,739) |
| Operating lease rentals | | **(3,779)** | (1,840) |
| Depreciation of right-of-use assets | | **(3,177)** | – |
| Depreciation of property, plant and equipment | | **(1,896)** | (1,991) |
| Amortisation of intangible assets | *11* | **(8,585)** | (110,165) |
| Fuel costs and utility expenses | | **–** | (78) |
| Fair value loss of financial assets held for trading | | **(14,159)** | (3,851) |
| Other operating expenses | | **(14,415)** | (6,341) |
| Finance costs | | **(16,515)** | (3,813) |
| **(Loss)/profit before income tax** | *5* | **(29,068)** | 206,693 |
| Income tax charge | *6* | **(344)** | (83,885) |
| **(Loss)/profit for the period** | | **(29,412)** | 122,808 |

* *For identification purposes only*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**
*For the six months ended 30 June 2019*

| | Notes | Unaudited six months ended 30 June **2019** ***HK$'000*** | 2018 *HK$'000* |
|---|---|---|---|
| **Other comprehensive (loss)/income after tax:** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations attributable to: | | | |
| Owners of the Company | | **(13,459)** | (21,781) |
| Non-controlling interests | | **(114)** | 1,448 |
| **Total comprehensive (loss)/income for the period** | | **(42,985)** | 102,475 |
| **(Loss)/profit for the period attributable to:** | | | |
| Owners of the Company | | **(28,782)** | 124,175 |
| Non-controlling interests | | **(630)** | (1,367) |
| | | **(29,412)** | 122,808 |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | **(42,241)** | 102,394 |
| Non-controlling interests | | **(744)** | 81 |
| | | **(42,985)** | 102,475 |
| **(Loss)/earnings per share** | *8* | | |
| — Basic (HK cents) | | **(0.30)** | 1.31 |
| — Diluted (HK cents) | | **(0.30)** | 0.94 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2019*

| | Notes | Unaudited 30 June 2019 HK$'000 | Audited 31 December 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **24,390** | 26,603 |
| Investment properties | 9 | **57,600** | 57,600 |
| Right-of-use assets | | **14,532** | – |
| Exploration and evaluation assets | 10 | **548,772** | 474,224 |
| Intangible assets | 11 | **1,230,829** | 1,250,254 |
| | | **1,876,123** | 1,808,681 |
| **Current assets** | | | |
| Account receivables | 12 | **367,113** | 439,596 |
| Financial assets held for trading | | **44,105** | 61,476 |
| Other receivables, deposits and prepayments | | **29,195** | 33,736 |
| Cash and bank balances | | **110,160** | 68,084 |
| | | **550,573** | 602,892 |
| **Total assets** | | **2,426,696** | 2,411,573 |
| **Current liabilities** | | | |
| Other payables and accruals | | **446,518** | 444,768 |
| Lease liabilities | | **7,317** | – |
| Amount due to a shareholder | | **30,131** | 39,363 |
| Bank borrowings | 13 | **109,301** | 65,931 |
| | | **593,267** | 550,062 |
| **Net current (liabilities)/assets** | | **(42,694)** | 52,830 |
| **Total assets less current liabilities** | | **1,833,429** | 1,861,511 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*At 30 June 2019*

| | *Notes* | **Unaudited 30 June 2019 *HK$'000*** | Audited 31 December 2018 *HK$'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other payables and accruals | | **147,355** | 143,736 |
| Lease liabilities | | **7,215** | – |
| Convertible notes | *14* | **75,333** | 71,467 |
| Deferred tax liabilities | | **11,852** | 11,649 |
| | | **241,755** | 226,852 |
| **Net Assets** | | **1,591,674** | 1,634,659 |
| **Equity** | | | |
| Share capital | | **475,267** | 475,267 |
| Reserves | | **1,104,845** | 1,147,086 |
| Attributable to owners of the Company | | **1,580,112** | 1,622,353 |
| Non-controlling interests | | **11,562** | 12,306 |
| **Total equity** | | **1,591,674** | 1,634,659 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

### a. Statement of compliance

The unaudited condensed consolidated interim financial statements (the "**Interim Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with 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**").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018 ("**2018 Annual Report**").

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 31 December 2018 except as stated below.

***(a) Leases***

*The Group as lessee*

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Land and buildings | 2-3 years |
| Motor vehicles | 3 years |

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

**b. Basis of measurement and going concern assumption**

*(i) Basis of measurement*

The condensed consolidated 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 six months ended 30 June 2019, the Group has suffered a loss of HK$29,412,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$42,694,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Group's current liabilities as at 30 June 2019 are mainly attributable to exploration and evaluation cost payables amounting to HK$372,195,000 (31 December 2018: HK$353,956,000). The directors of the Company confirm that these contractors are aware of the fact that the Company has yet to receive the proceeds from China National Petroleum Corporation ("**CNPC**"), 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. 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) financial support from a shareholder not to demand repayment within 12 months; (ii) the Group being able to successfully persuade contractors not to insist on repayment of the construction cost payables before the Company receives the proceeds from CNPC; and (iii) the Group being able to raise adequate funding through bank borrowings or otherwise. Taking into account the above assumptions, the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 30 June 2019.

**c. Functional and presentation currency**

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

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRS**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the Interim Financial Information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**HKFRS 16, Leases**

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease, HK(SIC)-Int 15, Operating leases — incentives, and HK(SIC)-Int 27, Evaluating the substance of transactions involving the legal form of a lease.

The key changes to the Group's accounting policies resulting from the adoption of HKFRS 16 are summarised below.

**As a lessee**

As a lessee, the Group previously classified leases as operating or finance leases under HKAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

The Group decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets. For leases of other assets, the Group recognised right-of-use assets and lease liabilities.

**As a lessor**

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedient to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS16.C8 (b) (ii) transition. The Group recognised lease liabilities of HK$6,624,000 and right-of-use assets of HK$6,624,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 6.98%.

| | **At 1 January 2019** *HK$'000* |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **8,959** |
| Lease liabilities discounted at relevant incremental borrowing rates | **7,990** |
| Less: Recognition exemption — short-term leases | **(1,366)** |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 | **6,624** |
| Lease liabilities as at 1 January 2019 | **6,624** |
| Analysed as | |
| Current | **3,168** |
| Non-current | **3,456** |
| | **6,624** |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | *Note* | **Right-of-use assets** *HK$'000* |
|---|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | | 6,624 |
| Adjustments on rental deposits at 1 January 2019 | *(a)* | – |
| | | 6,624 |
| By class: | | |
| Land and buildings | | 6,624 |

(a) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. The discounting effect has had no material impact on the carrying amount of the refundable rental deposits of the Group as at 1 January 2019.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2018 | Adjustments | Carrying amounts under HKFRS 16 at 1 January 2019 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Right-of-use assets | – | 6,624 | 6,624 |
| **Current liabilities** | | | |
| Lease liabilities | – | 3,168 | 3,168 |
| **Non-current liabilities** | | | |
| Lease liabilities | – | 3,456 | 3,456 |

*Note:* For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Except as above, the adoption of HKFRS 16 resulted in no other impact on the carrying amounts as at 1 January 2019.

The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's financial statements.

## 3. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports that are regularly reviewed by the chief operating decision-maker in order to allocate reserves to the segment and to assess its performance. In accordance with the Group's internal organization and reporting structure the operating segments are based on nature of business.

The Group has the following three reportable segments:

The Exploration, 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 2019 and 2018 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 2019 (unaudited)** | | | | |
| Revenue from external customers | **82,834** | **–** | **–** | **82,834** |
| Reportable segment loss before income tax | **(4,999)** | **(933)** | **(88)** | **(6,020)** |
| Segment results included: | | | | |
| Interest income | **263** | **–** | **–** | **263** |
| Interest expense | **(11,694)** | **–** | **–** | **(11,694)** |
| Amortisation of intangible assets | **(8,585)** | **–** | **–** | **(8,585)** |
| Depreciation of right-of-use assets | **(3,177)** | **–** | **–** | **(3,177)** |
| Depreciation of property, plant and equipment | **(1,736)** | **(123)** | **–** | **(1,859)** |
| **As at 30 June 2019 (unaudited)** | | | | |
| Reportable segment assets | **2,260,049** | **1,672** | **19** | **2,261,740** |
| Reportable segment liabilities | **(729,154)** | **(145)** | **–** | **(729,299)** |

| | 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 (unaudited)** | | | | |
| Revenue from external customers | 342,934 | – | 5 | 342,939 |
| Reportable segment profit/(loss) before income tax | 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) |
| **As at 31 December 2018 (audited)** | | | | |
| Reportable segment assets | 2,198,733 | 11,370 | 20 | 2,210,123 |
| Reportable segment liabilities | (662,637) | (90) | – | (662,727) |

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

| | **Unaudited six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| **(Loss)/profit before income tax** | | |
| Reportable segment (loss)/profit before income tax | **(6,020)** | 218,423 |
| Other income | **951** | 623 |
| Fair value loss of financial assets held for trading | **(14,159)** | (3,851) |
| Finance costs | **(4,821)** | (3,489) |
| Unallocated head office and corporate expenses | **(5,019)** | (5,013) |
| (Loss)/profit before income tax | **(29,068)** | 206,693 |

| | **Unaudited 30 June 2019** ***HK$'000*** | Audited 31 December 2018 *HK$'000* |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **2,261,740** | 2,210,123 |
| Property, plant and equipment | **268** | 474 |
| Investment properties | **57,600** | 57,600 |
| Other receivables, deposits and prepayments | **17,696** | 28,866 |
| Financial assets held for trading | **44,105** | 61,476 |
| Cash and bank balances | **45,287** | 53,034 |
| Total assets | **2,426,696** | 2,411,573 |

| | Unaudited 30 June 2019 *HK$'000* | Audited 31 December 2018 *HK$'000* |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **729,299** | 662,727 |
| Convertible notes | **75,333** | 71,467 |
| Amount due to a shareholder | **30,157** | 39,363 |
| Other payables and accruals | **233** | 3,357 |
| Total liabilities | **835,022** | 776,914 |

**(c) Disaggregation of revenue from contracts with customers:**

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| **Geographical markets** | | |
| The PRC | **82,834** | 342,934 |
| Hong Kong | **–** | 5 |
| Total | **82,834** | 342,939 |
| **Major product/service** | | |
| Natural gas | **82,834** | 342,934 |
| Money lending service | **–** | 5 |
| Total | **82,834** | 342,939 |
| **Timing of revenue recognition** | | |
| At a point of time | **82,834** | 342,934 |
| Overtime | **–** | 5 |
| Total | **82,834** | 342,939 |

## 4. OTHER INCOME

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Dividend income from financial assets held for trading | **890** | – |
| Exchange gain, net | **–** | 155 |
| Others | **482** | 534 |
| | **1,372** | 689 |

## 5. (LOSS)/PROFIT BEFORE INCOME TAX

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| The Group's (loss)/profit before income tax is stated after charging: | | |
| Depreciation of property, plant and equipment | **1,896** | 1,991 |
| Depreciation of right-of-use assets | **3,177** | – |
| Amortisation of intangible assets | **8,585** | 110,165 |
| Staff costs (including directors remuneration) | | |
| — Wages and salaries and other benefits | **5,936** | 6,709 |
| — Pension fund contributions | **51** | 30 |
| | **5,987** | 6,739 |

## 6. INCOME TAX CHARGE

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

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Current tax — the People's Republic of China (the "**PRC**") | | |
| Charge for the year | **29** | – |
| Deferred tax charge | **315** | 83,885 |
| | **344** | 83,885 |

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 PRC are calculated at the tax rate of 25%.

## 7. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil), nor has any dividend been proposed since the end of reporting period.

## 8. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

Basic (loss)/earnings 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** | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| (Loss)/earnings attributable to owners of the Company | **(28,782)** | 124,175 |
| | **Number of Shares** | |
| Weighted average number of ordinary shares in issue | **9,505,344,000** | 9,505,344,000 |
| | ***HK Cents*** | |
| Basic (loss)/earnings per share | **(0.30)** | 1.31 |

### (b) Diluted earnings per share

For the six months ended 30 June 2019, diluted loss per share is the same as basic loss per share as the potential ordinary shares on convertible notes are anti-dilutive.

The calculation of the diluted earnings per share attributable to the 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 owners of the Company | 124,175 |
| Adjustments for interest on convertible notes | 3,489 |
| Profit attributable to 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 |

## 9. INVESTMENT PROPERTIES

During the six months ended 30 June 2019, the Group did not acquire any investment properties (six months ended 30 June 2018: acquired two residential units and two car parking spaces located in Hong Kong at total consideration of HK$68,449,000).

## 10. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2019, the Group purchased exploration and evaluation assets of approximately HK$80,853,000 (six months ended 30 June 2018: HK$15,009,000).

## 11. INTANGIBLE ASSETS

As at 30 June 2019, 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 2019, amortisation of HK$8,585,000 (six months ended 30 June 2018: HK$110,165,000) was provided and is amortised under unit of production method.

The actual volume of gas production of Kashi Project has increased to 153,558,000 (six months ended 30 June 2018: 122,500,000) cubic meters. No impairment loss of intangible assets was recognised during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

The pre-tax discount rates used for value in use calculation is 18.08% and 19.5% for the six months ended 30 June 2019 and year ended 31 December 2018 respectively.

## 12. ACCOUNT RECEIVABLES

| | **The Group** | |
|---|---|---|
| | **Unaudited** | Audited |
| | **30 June** | 31 December |
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Account receivables | **367,113** | 439,596 |

Account receivables represent the receivables recognised under the production sharing contract with CNPC for the Group's operation in Kashi, the PRC. The Group recognise the revenue in relation to this operation during the current period. Sales to customer is normally made with credit terms of 30 to 60 days. The entire balance of account receivables as at 30 June 2019 and 31 December 2018, based on the invoice dates, 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.

The aging analysis of account receivables at the end of the reporting period, presented based on the revenue recognition dates, and net of allowance, is as follows:

| | **As at 30 June 2019 (Unaudited)** *HK$'000* | As at 31 December 2018 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **14,118** | 83,305 |
| More than 3 months but within 6 months | **–** | – |
| More than 6 months but within 1 year | **–** | 356,291 |
| More than 1 year | **352,995** | – |
| | **367,113** | 439,596 |

## 13. BANK BORROWINGS

| | **Unaudited 30 June 2019** *HK$'000* | Audited 31 December 2018 *HK$'000* |
|---|---|---|
| Secured bank borrowings – current | **109,301** | 65,931 |
| Repayable: | | |
| Within one year or on demand | **109,301** | 65,931 |

The bank borrowings are denominated in RMB, charged at an interest rate of 147% of the benchmark interest rate of the People's Bank of China and pledged by the account receivables of the Group (note 12).

## 14. CONVERTIBLE NOTES

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* |
| As at 31 December 2018 and 1 January 2019 (audited) | 71,467 | 695,828 |
| Interest expenses (unaudited) | 3,866 | – |
| As at 30 June 2019 (unaudited) | 75,333 | 695,828 |

Up to 30 June 2019, convertible notes with principal amount of HK$599,330,000 have converted into ordinary shares of the Company. No convertible notes have been converted during the six months ended 30 June 2019 and the year ended 31 December 2018.

The convertible notes with outstanding principal amount of HK$679,670,000 as at 30 June 2019 and 31 December 2018 have maturity date falling 30 years from the date of issue on 3 January 2011.

## 15. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Results

During the six months ended 30 June 2019 under review, the Group recorded the turnover of approximately HK$82,834,000 (six months ended 30 June 2018: HK$342,939,000). The Group's turnover was principally derived from the exploration, production and distribution of natural gas segment of HK$82,834,000 (six months ended 30 June 2018: HK$342,934,000).

The Group recorded a loss attributable to the owners of the Company of approximately HK$28,782,000 for the six months ended 30 June 2019, as compared to a profit of approximately HK$124,175,000 during the corresponding period in 2018. The significant decrease was mainly due to (i) the net effect of the non-recurrence of the one-off 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**") for the years 2009-2017 in the amount of HK$327,274,000 in the first half of 2018 and its related amortisation of HK$100,165,000; (ii) the increase in selling and distributing expenses of HK$37,770,000; (iii) the increase in finance cost of HK$12,702,000; and (iv) the increase in fair value loss of financial assets held for trading of HK$10,308,000. Loss per share attributable to the owners of the Company was 0.30 HK cents (2018: profit of 1.31 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 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. 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 agreement to the Petroleum Contract (the "**Supplemental Agreement**") extending the First Phase exploration period to 5 December 2017 and agreeing on the aggregation of the costs incurred by CNPC between 1 June 2009 and 5 Decmeber 2017 with the pre-contract costs. 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). In 2018, the cost incurred by CNPC between 1 January 2016 and 31 December 2017 in the amount of approximately RMB94,042,000 was confirmed. The filing of the Overall Development Program ("**ODP**") was completed on 8 July 2019, and the development period of the Kashi Project commenced with effect from 9 July 2019. Up to the date hereof, the terms of the Gas Sales Agreements ("**GSA**") is still being negotiated and not yet finalized or signed.

On 20 June 2019, China Era and CNPC entered into a second supplemental agreement to the Petroleum Contract (the "**2nd Supplemental Agreement**") which agreed the amount of profit sharing between 2009 and 2017 and it was consistent with the revenue recognised in the 2018 financial statements.

Since the acquisition of Totalbuild Investments Group, pilot productions were carried out at the site. 153.6 million cubic metres ("**MMm$^3$**") of natural gas was extracted during the six months ended 30 June 2019 (six months ended 30 June 2018: 122.5 MMm$^3$).

As at 30 June 2019, the acquired oil/gas field has estimated contingent resources of approximately 47.4 thousand barrels ("**Mbbl**") of oil (31 December 2018: 47.4 Mbbl) and approximately 11,258 MMm$^3$ of natural gas (31 December 2018: 11,333 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 being no definitive GSA or accurate information on likely future sales prices; and (ii) the field being situated in a remote location.

During the period, this operation together with the natural gas distribution operation in Karamay, Xinjiang contributed revenue of HK$82,834,000 (six months ended 30 June 2018: HK$342,934,000) and the segment loss before income tax was approximately HK$4,999,000 (six months ended 30 June 2018: profit of HK$219,536,000). During the period, amortisation of HK$8,585,000 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 period.

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 | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Revenue | **82,834** | 342,934 |
| Cost of sales | **(6,991)** | (2,117) |
| Other income | **421** | – |
| Selling and distribution expenses | **(37,770)** | – |
| Operating expenses | **(18,301)** | (8,952) |
| Amortisation | **(8,585)** | (110,165) |
| Depreciation | **(4,913)** | (1,840) |
| Finance cost | **(11,694)** | (324) |
| (Loss)/profit from operations before income tax expenses | **(4,999)** | 219,536 |

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

| | Unaudited six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| Exploration cost | **80,853** | 15,009 |

*Sales of Food and Beverages Business*

For the six month ended 30 June 2019, the Group did not record any revenue from the sales of food and beverages business segment (six months ended 30 June 2018: Nil). The segment loss before tax expenses was approximately HK$933,000 (six months ended 30 June 2018: HK$1,007,000). 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 2019, no revenue is generated 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) (six months ended 30 June 2018: HK$5,000). The segment loss before tax expenses was approximately HK$88,000 (six months ended 30 June 2018: loss of HK$106,000). 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 2018.

**Financial Review**

*Liquidity, Financial Resources and Capital Structure*

As at 30 June 2019, the Group had outstanding secured bank borrowings of HK$109,301,000 (31 December 2018: HK$65,931,000). The cash and cash equivalents of the Group were approximately HK$110,160,000 (31 December 2018: HK$68,084,000). The Group's current ratio (current assets to current liabilities) was approximately 92.8% (31 December 2018: 109.6%). The ratio of total liabilities to total assets of the Group was approximately 34.4% (31 December 2018: 32.2%).

As at 30 June 2019, 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.

*Charge of Assets*

Account receivables of the amount HK$367,113,000 as at 30 June 2019 (31 December 2018: HK$439,739,000) were pledged as security for bank borrowings granted to the Group.

*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$654,405,000 as at 30 June 2019 (31 December 2018: HK$223,484,000).

*Contingent Liabilities*

Save as any contingent liabilities which may arise from any of the litigations disclosed in this announcement, the Group had no other material contingent liabilities as at 30 June 2019 and 31 December 2018.

*Employee Information*

As at 30 June 2019, the Group had a total workforce of 43 (31 December 2018: 41). 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*

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 commence on the date after the date of filing completion of the ODP 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).

As disclosed in the Company's announcement dated 25 July 2019, the filing of the ODP of Kashi Project was completed on 8 July 2019 and the development period commenced with effect from 9 July 2019. The Company's management will continue to follow up with CNPC with the view to expediting the GSA signing thereby accelerating the commencement of commercial production of Kashi Project, and will continue to follow up with potential lenders and investors with the view to secure additional debt and/or equity funding to finance the further development of the project. 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 management has taken a cautious approach in money lending business in view of the Group's current financial position. The management will continue to look for high quality borrowers in order to minimise the risk of default.

## 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 2019, 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. 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. 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. The management experience, expertise and commitment of the re-electing Directors will be considered by the nomination committee of the Company before their re-election proposals are put forward to Shareholders. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices regarding Directors' appointment are no less exacting than those in the CG Code.

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. Certain non-executive Directors were unable to attend the Company's AGM held on 30 June 2019 due to other business commitments. However, views expressed by shareholders at general meetings are recorded and circulated for discussion by all directors regardless of attendance. The Company will plan its dates of meetings in advance to facilitate Directors' attendance.

**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 throughout the period under review.

**Audit Committee**

The audit committee comprises one non-executive director and three independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited financial statements for the six months ended 30 June 2019 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 2019 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 2019

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