CHINA ENERGY DEVELOPMENT HOLDINGS LIMITED
中國能源開發控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 228)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "**Board**") of China Energy Development Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 together with comparative figures for 2018 as follows. For the reasons explained in the Paragraph headed "Review of Unaudited Annual Results" in this announcement, the auditing process for the unaudited annual results of the Group for the year ended 31 December 2019 has not be completed.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** *HK\$'000* **(Unaudited)**	2018 *HK\$'000* (Audited)
Revenue	*3*	**158,060**	477,789
Direct cost		**(42,184)**	(6,466)
Other income	*4*	**3,205**	20,133
Selling and distribution expenses		**(24,316)**	(24,520)
Staff costs	*6*	**(16,628)**	(14,964)
Expenses related to short-term leases		**(6,077)**	(3,579)
Depreciation of property, plant and equipment		**(8,535)**	(3,840)
Depreciation of right-of-use assets		**(7,233)**	–
Fair value loss of financial assets at fair value through profit or loss		**(26,758)**	(13,064)
Loss on disposal of financial assets at fair value through profit or loss		**(442)**	–
Fair value loss of investment properties		**(920)**	(10,849)
Written off on exploration and evaluation assets	*10*	**(37,673)**	–
Impairment of exploration and evaluation assets	*10*	**(1,000)**	(36,000)
Impairment and amortisation of intangible assets	*11*	**(76,458)**	(212,727)
Impairment of property, plant and equipment		**(33,000)**	–
Impairment of goodwill		**–**	(1,151)
Other operating expenses		**(35,891)**	(24,059)
Finance costs	*5*	**(29,318)**	(8,474)
(Loss)/profit before income tax	*6*	**(185,168)**	138,229
Income tax credit/(charge)	*7*	**111,677**	(111,041)
(Loss)/profit for the year		**(73,491)**	27,188

* *For identification purposes only*

	Notes	**2019** **HK$'000** **(Unaudited)**	2018 *HK$'000* (Audited)
Other comprehensive (loss)/income after tax:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to:			
Owners of the Company		**(40,297)**	(73,284)
Non-controlling interests		**(363)**	882
		(40,660)	(72,402)
Total comprehensive loss for the year		**(114,151)**	(45,214)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(72,352)**	27,544
Non-controlling interests		**(1,139)**	(356)
		(73,491)	27,188
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(112,649)**	(45,740)
Non-controlling interests		**(1,502)**	526
		(114,151)	(45,214)
(Loss)/earnings per share attributable to owners of the Company for the year	*9*		
— Basic (HK cents)		**(0.76)**	0.29
— Diluted (HK cents)		**(0.76)**	0.25

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	2019 HK$'000 (Unaudited)	2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**639,110**	26,603
Investment properties		**56,680**	57,600
Right-of-use assets		**10,773**	–
Exploration and evaluation assets	*10*	**20,120**	474,224
Intangible assets	*11*	**1,140,898**	1,250,254
Deferred tax assets		**100,026**	–
Total non-current assets		**1,967,607**	1,808,681
Current assets			
Account and note receivables	*12*	**148,344**	439,596
Financial assets at fair value through profit or loss		**31,064**	61,476
Other receivables, deposits and prepayments		**43,391**	33,736
Cash and bank balances		**226,798**	68,084
Total current assets		**449,597**	602,892
Total assets		**2,417,204**	2,411,573
Current liabilities			
Other payables and accruals		**712,367**	444,768
Lease liabilities		**10,604**	–
Amount due to a shareholder		**29,551**	39,363
Bank borrowings	*13*	**–**	65,931
Total current liabilities		**752,522**	550,062
Net current (liabilities)/assets		**(302,925)**	52,830
Total assets less current liabilities		**1,664,682**	1,861,511

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Non-current liabilities		
Other payables and accruals	**61,692**	143,736
Lease liabilities	**3,283**	–
Convertible notes	**79,199**	71,467
Deferred tax liabilities	**–**	11,649
Total non-current liabilities	**144,174**	226,852
Net Assets	**1,520,528**	1,634,659
Equity		
Share capital	**475,267**	475,267
Reserves	**1,034,437**	1,147,086
Attributable to owners of the Company	**1,509,704**	1,622,353
Non-controlling interests	**10,804**	12,306
Total equity	**1,520,508**	1,634,659

Notes:

1. BASIS OF PREPARATION

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which also include Hong Kong Accounting Standards ("**HKASs**") and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong, the applicable disclosure required by the Hong Kong Company Ordinance and the applicable disclosure provisions of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**").

The accounting policies and methods of computation used in the preparation of the consolidated 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	2-4 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

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and financial assets at fair value through profit or loss, which are measured at fair values.

(c) Going concern basis

For the year ended 31 December 2019, the Group has suffered a loss of HK$73,491,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$302,925,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Group's current liabilities as at 31 December 2019 are mainly attributable to exploration and evaluation cost payables amounting to HK$419,069,000 (31 December 2018: HK$353,956,000). The directors of the Company are of the view that the Group will be able to successfully persuade these contractors not to insist on repayment before the fully operation of exploration, production and distribution business in Kashi. However, there is no certainty that these contractors will not demand repayment before the fully operation of exploration, production and distribution business in Kashi.

In view of the net current liabilities position, the Directors have carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) financial support from a shareholder not to demand repayment within 12 months; (ii) the Group being able to successfully persuade contractors not to insist on repayment of the construction cost payables before the fully operation of exploration, production and distribution business in Kashi; and (iii) the Group being able to raise adequate funding through bank borrowings or otherwise. Taking into account the above assumptions, the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2019.

(d) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is the Group's presentation currency. The functional currency of the principal operating subsidiaries of the Group is Renminbi. The Directors consider that choosing Hong Kong dollars as the presentation currency best suits the needs of the shareholders and investors.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

In the current year, 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 year 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 year 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 years have been prepared or presented in the consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year.

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 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 *HK$'000*	Adjustments *HK$'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *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 year ended 31 December 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.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]

[1] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the Group's result of operations and financial positions.

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 resources to the segment and to assess its performance. In accordance with the Group's internal organisation 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 and the usage of pipeline for distribution 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 years ended 31 December 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$'000* **(Unaudited)**	**Sales of Food and Beverages Business** *HK$'000* **(Unaudited)**	**Money Lending Business** *HK$'000* **(Unaudited)**	**Total** *HK$'000* **(Unaudited)**
For the year ended 31 December 2019				
Revenue from external customers	**158,060**	**–**	**–**	**158,060**
Reportable segment loss before income tax	**(137,024)**	**(1,460)**	**(168)**	**(138,652)**
Segment results included:				
Interest income	**1,083**	**–**	**–**	**1,083**
Interest expense	**(19,867)**	**–**	**–**	**(19,867)**
Depreciation of property, plant and equipment	**(8,241)**	**(245)**	**–**	**(8,486)**
Depreciation of right-of-use assets	**(7,233)**	**–**	**–**	**(7,233)**
Amortisation of intangible assets	**(16,458)**	**–**	**–**	**(16,458)**
Impairment of property, plant and equipment	**(33,000)**	**–**	**–**	**(33,000)**
Impairment of intangible assets	**(60,000)**	**–**	**–**	**(60,000)**
Written off on exploration and evaluation assets	**(37,673)**	**–**	**–**	**(37,673)**
Impairment of exploration and evaluation assets	**(1,000)**	**–**	**–**	**(1,000)**
Income tax credit	**111,677**	**–**	**–**	**111,677**
Additions to non-current assets	**255,778**	**–**	**–**	**255,778**
As at 31 December 2019				
Reportable segment assets	**2,269,952**	**1,422**	**19**	**2,271,393**
Reportable segment liabilities	**(786,527)**	**(205)**	**–**	**(786,732)**

	Exploration, Production and Distribution of Natural Gas *HK$'000* (Audited)	Sales of Food and Beverages Business *HK$'000* (Audited)	Money Lending Business *HK$'000* (Audited)	Total *HK$'000* (Audited)
For the year ended 31 December 2018				
Revenue from external customers	477,784	–	5	477,789
Reportable segment profit/(loss) before income tax	163,523	(1,990)	(241)	161,292
Segment results included:				
Interest income	23	–	–	23
Interest expense	(1,496)	–	–	(1,496)
Depreciation of property, plant and equipment	(3,532)	(245)	–	(3,777)
Amortisation of intangible assets	(117,727)	–	–	(117,727)
Impairment of intangible assets	(95,000)	–	–	(95,000)
Impairment of exploration and evaluation assets	(36,000)	–	–	(36,000)
Impairment of goodwill	(1,151)	–	–	(1,151)
Income tax charge	(111,041)	–	–	(111,041)
Additions to non-current assets	162,452	–	–	162,452
As at 31 December 2018				
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

	2019 ***HK$'000*** **(Unaudited)**	2018 *HK$'000* (Audited)
(Loss)/profit before income tax		
Reportable segment (loss)/profit before income tax	**(138,652)**	161,292
Other income	**1,748**	19,765
Fair value loss of financial assets at fair value through profit or loss	**(26,758)**	(13,064)
Loss on disposed of financial assets at fair value through profit or loss	**(442)**	–
Fair value loss of investment properties	**(920)**	(10,849)
Finance costs	**(9,451)**	(6,978)
Unallocated head office and corporate expenses	**(10,693)**	(11,937)
(Loss)/profit before income tax	**(185,168)**	138,229

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Assets		
Reportable segment assets	**2,271,393**	2,210,123
Property, plant and equipment	**534**	474
Investment properties	**56,680**	57,600
Other receivables, deposits and prepayments	**18,459**	28,866
Financial assets at fair value through profit or loss	**31,064**	61,476
Cash and bank balances	**39,074**	53,034
Total assets	**2,417,204**	2,411,573

	2019 *HK$'000*	2018 *HK$'000*
Liabilities		
Reportable segment liabilities	**786,732**	662,727
Convertible notes	**79,199**	71,467
Amount due to a shareholder	**29,551**	39,363
Other payables and accruals	**1,214**	3,357
Total liabilities	**896,696**	776,914

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

	Exploration, Production and Distribution of Natural Gas *HK$'000* (Unaudited)	Sales of Food and Beverages Business *HK$'000* (Unaudited)	Money Lending Business *HK$'000* (Unaudited)	2019 Total *HK$'000* (Unaudited)
Geographical markets				
The People's Republic of China (the "**PRC**")	**158,060**	**–**	**–**	**158,060**
Major product/service				
Natural gas	**158,060**	**–**	**–**	**158,060**
Timing of revenue recognition				
At a point of time	**158,060**	**–**	**–**	**158,060**

	Exploration, Production and Distribution of Natural Gas *HK$'000* (Audited)	Sales of Food and Beverages Business *HK$'000* (Audited)	Money Lending Business *HK$'000* (Audited)	2018 Total *HK$'000* (Audited)
Geographical markets				
The PRC	477,784	–	–	477,784
Hong Kong	–	–	5	5
Total	477,784	–	5	477,789
Major product/service				
Natural gas	477,784	–	–	477,784
Money lending service	–	–	5	5
Total	477,784	–	5	477,789
Timing of revenue recognition				
At a point of time	477,784	–	–	477,784
Over time	–	–	5	5
Total	477,784	–	5	477,789

(d) Geographic information

The following table provides an analysis of the Group's non-current assets other than deferred tax assets ("**Specified non-current assets**").

	Specified non-current assets	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Hong Kong (place of domicile)	**58,053**	58,959
PRC	**1,809,528**	1,749,722
	1,867,581	1,808,681

4. OTHER INCOME

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Bank interest income	**1,103**	43
Dividend income from financial assets at fair value through profit or loss	**890**	228
Reversal of expected credit losses	**332**	6,268
Gain on disposal of subsidiary	**–**	12,697
Others	**880**	897
	3,205	20,133

5. FINANCE COSTS

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
Interest on bank borrowings	**5,088**	919
Interest on lease liabilities	**1,619**	–
Interest on amount due to a shareholder	**1,719**	–
Interest on convertible notes	**7,732**	6,978
Interest on other payables	**13,160**	577
	29,318	8,474

6. (LOSS)/PROFIT BEFORE INCOME TAX

	2019 *HK$'000* (Unaudited)	2018 *HK$'000* (Audited)
(Loss)/profit before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**850**	925
Depreciation of property, plant and equipment	**8,535**	3,840
Depreciation of right-of-use assets	**7,233**	–
Amortization of intangible assets	**16,458**	117,727
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	**16,534**	14,895
— Pension fund contributions	**94**	69
	16,628	14,964
Reversal of expected credit losses	**(332)**	(6,268)

7. INCOME TAX CREDIT/(CHARGE)

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current tax — the PRC		
— tax for the year	**–**	(152)
Deferred tax credit/(charge)		
— origination and reversal of temporary difference	**111,677**	(110,889)
Total income tax credit/(charge)	**111,677**	(111,041)

No provision for Hong Kong profits tax has been made as the Group did not have assessable profit for the year (2018: Nil).

No provision for PRC profits tax has been made as the Group did not have assessable profit for the year (2018: 25%).

8. DIVIDEND

The board of directors of the Company did not recommend any payment of dividend during the year (2018: Nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
(Loss)/profit attributable to owners of the Company	**(72,352)**	27,544
	Number of shares	*Number of shares*
Weighted average number of ordinary shares in issue	**9,505,344,000**	9,505,344,000
	HK Cents	*HK Cents*
Basic (loss)/earnings per share	**(0.76)**	0.29

(b) Diluted

For the year ended 31 December 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 year ended 31 December 2018 is based on the following data:

	2018 *HK$'000* (Audited)
Profit attributable to owners of the Company	27,544
Adjustments for interest on convertible notes	6,978
Profit attributable to owners of the Company for the purpose of diluted earnings per share	34,522
	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	0.25

10. EXPLORATION AND EVALUATION ASSETS

During the year ended 31 December 2019, the Group incurred exploration and evaluation cost of approximately HK$19,282,000 (2018: HK$162,326,000) and transfer of approximately HK$422,452,000 to oil properties under Property, Plant and Equipment. Written off of HK$37,673,000 (2018: Nil) was recognised in profit or loss as one exploration well was closed during the year. Provision for impairment loss of HK$1,000,000 (2018: HK$36,000,000) was recognised in profit or loss as the carrying amount of the related cash-generating unit exceeds its recoverable amount.

11. INTANGIBLE ASSETS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Cost		
At 1 January	**2,729,031**	2,849,785
Exchange differences	**(72,452)**	(120,754)
At 31 December	**2,656,579**	2,729,031
Accumulated impairment		
At 1 January	**1,478,777**	1,326,273
Amortisation	**16,458**	117,727
Impairment loss *(note)*	**60,000**	95,000
Exchange differences	**(39,554)**	(60,223)
At 31 December	**1,515,681**	1,478,777
Carrying amount		
At 31 December	**1,140,898**	1,250,254

The intangible assets represent the interests in the Petroleum Contract which were amortised on unit of production method.

Note:

Impairment loss of intangible assets in the amounts of HK$60,000,000 (2018: HK$95,000,000) was recognised during the year ended 31 December 2019 as the carrying amount of the cash-generating unit for the exploration and production of natural gas business (the "**Kashi Project**") exceeds its recoverable amount.

12. ACCOUNT AND NOTE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Account receivables		
— Sales of natural gas	**48,820**	439,739
Loan and interest receivables		
— others	**37,100**	37,100
	85,920	476,839
Less: Expected credit loss	**(37,104)**	(37,243)
	48,816	439,596
Note receivables	**99,528**	–
	148,344	439,596

The entire balance of account receivables are not yet past due. The Group did not hold any collateral over the balance.

13. BANK BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Secured bank borrowings — current	**–**	65,931

The bank borrowings are denominated in RMB, charged at floating interest rates and pledged by the account receivables of the Group *(note 13)*. The effective interest rate for the year ended 31 December 2018 is 6.98% per annum.

14. 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 year, the Group recorded a revenue in the amount of approximately HK$158,060,000 (2018: HK$477,789,000). The Group's revenue was principally derived from the exploration, production and distribution of natural gas segment of approximately HK$158,060,000 (2018: HK$477,784,000). During the year, the money lending business segment did not contribute any revenue to the Group (2018: HK$5,000), and the sales of food and beverages segment did not contribute any revenue to the Group (2018: Nil) either.

The Group recorded a loss attributable to the owners of the Company in the amount of approximately HK$72,352,000, compared to a profit of approximately HK$27,544,000 during last year. It was mainly due to the net effect of non-recurrence of the one-off revenue recognition in year 2018 of natural gas sales for the years 2009-2017 and its correspondence amortisation. Loss per share attributable to the owners of the Company was 0.76 HK cents (2018: earnings per share of 0.29 HK cents).

Business Review

Exploration, Production and Distribution of Natural Gas Segment

The Petroleum Contract

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

Under the Petroleum Contract, China Era shall apply its appropriate and advanced technology and management expertise and assign its competent experts to perform exploration, development, and production of oil and/or natural gas within the site. 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 China Era 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 (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 December 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.

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.

The Status of Gas Sales Agreements

As at 31 December 2019, the Company was still negotiating the Gas Sales Agreements ("**GSA**") with CNPC. The terms of the GSA include the quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point, etc. As at the date of this announcement, China Era has reached in-principle consensus with CNPC on the key terms of the GSA and the GSA is under the internal approval progress of CNPC. The Company expected that the signing of the formal GSA should take place in the year 2020.

Segment Performance

During the year, this operation together with the natural gas distribution operation in Karamany, Xinjiang contributes revenue of approximately HK$158,060,000 (2018: HK$477,784,000) and the segment loss before income tax was approximately HK$137,024,000 (2018: profit before income tax HK$163,523,000). Impairment losses on intangible assets, exploration and evaluation assets and property, plant and equipment in the amounts of HK$60,000,000 (2018: HK$95,000,000), HK$1,000,000 (2018: HK$36,000,000) and HK$33,000,000 (2018: Nil) respectively were recognised during the current year, principally due to the change of production volume forecast to reflect the current market situation.

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Revenue	**158,060**	477,784
Direct cost	**(42,184)**	(6,466)
Other income	**1,457**	368
Selling and distribution expenses	**(24,316)**	(24,520)
Operating expenses	**(46,569)**	(28,737)
Depreciation	**(15,474)**	(3,532)
Written off on exploration and evaluation assets	**(37,673)**	–
Impairment of exploration and evaluation assets	**(1,000)**	(36,000)
Impairment and amortisation of intangible assets	**(76,458)**	(212,727)
Impairment of goodwill	**–**	(1,151)
Impairment of property, plant and equipment	**(33,000)**	–
Finance cost	**(19,867)**	(1,496)
Results of operations before income tax	**(137,024)**	163,523

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

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Exploration cost	**19,282**	162,326

Information of Gross Contingent Resources on Oil and Gas Field

The reserve evaluation was conducted in accordance with Petroleum Resources Management system, an internationally recognised reserve standards and guideline, the details of information were set out in the Appendix V of Competent Person's Report to the Company's circular dated 3 December 2010. There is no material change of assumption as compared with previous disclosed in the Competent Person's Report, except for the delay in the production schedules due to the delay in the ODP finalisation and the signing of the GSA.

The following table summarised the estimates of Group's 49% net entitlement interests of the gross contingent resources in the Petroleum Contract:

	Oil	Natural gas
	(Mbbl)	*(MMm^3)*
As at 31 December 2018 and 1 January 2019	47.4	11,333
Production activity during the year	–	(148)
As at 31 December 2019	47.4	11,185

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; (ii) the ODP having yet to be filed; and (iii) the field being situated in a remote location. Up to the date of this announcement, the filing of the ODP was completed on 8 July 2019, but the GSA has yet to be signed.

Sales of Food and Beverages Business

The Group did not record any revenue from the sales of food and beverages business segment in 2019 and 2018. The segment loss before tax was approximately HK$1,460,000 (2018: HK$1,990,000). No revenue was recorded during the year, mainly due to the Group's intention to reduce reliance on sales of food and beverage. We will continue to keep track of the economic environment and review the future allocation of resource as and when required.

Money Lending Business

During the year, the Group did not generate any 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) (2018: HK$5,000). The segment loss before tax was approximately HK$168,000 (2018: HK$241,000). 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 last year.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Group did not have outstanding secured bank borrowings (2018: HK$65,931,000). The cash and cash equivalents of the Group were approximately HK$226,798,000 (2018: HK$68,084,000). The Group's current ratio (current assets to current liabilities) was approximately 59.7% (2018: 109.6%). The ratio of total liabilities to total assets of the Group was approximately 36.9% (2018: 32.2%).

As at 31 December 2019, the convertible notes due in 2041 has an outstanding principal amount of HK$679,670,000. These convertible notes do not carry any interest, but carry the right to convert the principal amount 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 year, 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 disclosed in the section headed "Litigation" in this announcement.

Charge of Assets

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2019 (2018: Account receivables of HK$439,596,000 were pledged as security for bank borrowings).

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 minimise currency risks. The Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimising 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$522,640,000 (of which approximately HK$199,564,000 would be borne by CNPC) and HK$121,000,000 as at 31 December 2019 (2018: HK$104,834,000 and HK$118,650,000) in respect of capital expenditure of exploration, production and distribution of nature gas segment and capital contributions in a subsidiary respectively.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2019 and 2018.

Employee Information

As at 31 December 2019, the Group had a total workforce of 50 (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 commences on the date after the date of filing completion of the ODP and ends 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 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

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 year ended 31 December 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

During the year and up to the date of this announcement, members of the Audit Committee included:

Mr. Lee Man Tai *(Chairman of Audit Committee)*
Dr. Gu Quan Rong
Mr. Zong Ketao
Mr. Cheng Chun Ying

As at the date of this announcement, the audit committee comprises one non-executive director and three independent non-executive directors of the Company. The audit committee has adopted terms of reference which are in line with the CG Code. The Group's unaudited consolidated financial statements for year ended 31 December 2019 have been reviewed by the audit committee, which is of the opinion that such statements complied with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to travel restrictions and other public health measures in force in parts of China to combat the COVID-19 Coronavirus outbreak. The unaudited results contained in this announcement have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The Company currently expects that the auditing process should be completed on or before 15 May 2020.

Due to the outbreak of Coronavirus since January 2020, the financial reporting procedures, including the compilation of information and documents for review by professional parties, are substantially delayed. We therefore cannot rule out the possibility that the impairment assessments conducted by the Company's management over the fair value of accounting items and the information about the Gross Contingent Resources set out in this announcement may be adjusted after taking the advice of professional advisers during the course of the audit process.

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the Year as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting (the "**2020 AGM**") will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the 2020 AGM. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cnenergy.com.hk). Due to the delay in the completion of the financial reporting and auditing works as a result of the Coronavirus epidemic as set out in the Company's announcement dated 10 March 2020, the Company currently expects that the annual report of the Company for the year ended 31 December 2019 containing all the information as required by the Listing Rules should be dispatched to the shareholders of the Company and made available for review on the same websites on or before 15 May 2020.

FORWARD LOOKING STATEMENTS

There is no assurance that any forward-looking statements regarding the business development of the Group set out in this announcement or any of the matters set out therein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place undue reliance on the information disclosed herein. Any holder of securities or potential investor of the Company who is in doubt is advised to seek advice form professional advisers.

WARNING STATEMENT

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors of the Company. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 March 2020

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