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(Incorporated in the Cayman Islands with limited liability)

(Stock code: 228)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 2022 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Company’s Audit Committee.

FINANCIAL HIGHLIGHTS			
Six months ended 30 June			
Unaudited	2022	2021	Increase/ (decrease)%
Revenue (HK\$’000)	185,555	202,564	(8.4%)
Earnings before interest, tax, depreciation and amortisation (“ EBITDA ”) (HK\$’000)	140,266	139,712	0.4%
EBITDA margin (%)	75.6%	69.0%	6.6%
Profit attributable to Owners of the Company (HK\$’000)	61,875	48,061	28.7%
Net profit margin (%)	33.3%	23.7%	9.6%
Earnings per share			
— Basic (HK cents)	0.65	0.51	27.5%
— Diluted (HK cents)	0.50	0.51	(2.0%)

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Unaudited	
		six months ended 30 June	
		2022	2021
	Notes	HK\$'000	HK\$'000
REVENUE	3	185,555	202,564
Direct cost		(29,561)	(21,710)
Other income	4	2,847	990
Selling and distributing expenses		(17,351)	(20,256)
Staff costs		(9,557)	(9,021)
Expenses related to short-term leases		(240)	(552)
Depreciation of right-of-use assets		(5,736)	(5,101)
Depreciation of property, plant and equipment		(20,834)	(20,984)
Amortisation of intangible assets	12	(15,741)	(17,463)
Fair value (loss)/gain of financial assets at fair value through profit or loss		(5,188)	125
Reversal of impairment of property, plant and equipment		4,316	–
Reversal of impairment of intangible assets		16,603	–
Expense charged under Petroleum Contract		(2,770)	(5,984)
Other operating expenses		(4,388)	(6,444)
Finance costs	5	(26,883)	(21,791)
PROFIT BEFORE INCOME TAX	6	71,072	74,373
Income tax charge	7	(9,365)	(27,042)
PROFIT FOR THE PERIOD		61,707	47,331
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		(74,846)	13,367
Non-controlling interests		(599)	112
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(13,738)	60,810

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)**

For the six months ended 30 June 2022

	Unaudited	
	six months ended 30 June	
	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD		
ATTRIBUTABLE TO:		
Owners of the Company	61,875	48,061
Non-controlling interests	(168)	(730)
	<u>61,707</u>	<u>47,331</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME		
ATTRIBUTABLE TO:		
Owners of the Company	(12,971)	61,428
Non-controlling interests	(767)	(618)
	<u>(13,738)</u>	<u>60,810</u>
EARNINGS PER SHARE ATTRIBUTABLE TO		
OWNERS OF THE COMPANY		
— Basic (HK cents)	0.65	0.51
— Diluted (HK cents)	0.50	0.51

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		Unaudited 30 June 2022 HK\$'000	Audited 31 December 2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,170,975	1,229,496
Right-of-use assets		11,013	17,299
Exploration and evaluation assets	11	48,693	50,899
Intangible assets	12	1,227,560	1,279,596
Deferred tax assets		23,440	33,973
		2,481,681	2,611,263
CURRENT ASSETS			
Account receivables	13	63,968	1,213
Financial assets at fair value through profit or loss		32,466	37,654
Other receivables, deposits and prepayments		31,718	34,168
Cash and bank balances		150,988	167,280
		279,140	240,315
TOTAL ASSETS		2,760,821	2,851,578
CURRENT LIABILITIES			
Other payables and accruals	14	351,131	470,201
Lease liabilities		15,718	11,178
Amount due to a shareholder		32,589	32,589
Other borrowings	15	76,560	79,860
		475,998	593,828
NET CURRENT LIABILITIES		(196,858)	(353,513)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,284,823	2,257,750

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

At 30 June 2022

		Unaudited	Audited
		30 June	31 December
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Other borrowings	15	416,440	373,890
Lease liabilities		610	7,611
Convertible notes	16	102,527	97,265
		<u>519,577</u>	<u>478,766</u>
NET ASSETS		<u>1,765,246</u>	<u>1,778,984</u>
EQUITY ATTRIBUTABLE TO			
Share capital	17	475,267	475,267
Reserves		1,278,262	1,291,233
		<u>1,753,529</u>	<u>1,766,500</u>
Owners of the Company		11,717	12,484
Non-controlling interests		<u>1,765,246</u>	<u>1,778,984</u>
TOTAL EQUITY		<u>1,765,246</u>	<u>1,778,984</u>

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 2021 (“**2021 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 2021.

The Interim Financial Statements were approved and authorised for issue by the Board on 22 August 2022.

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*

As at 30 June 2022, the current liabilities of the Group exceeded its current assets by approximately HK\$196,858,000. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Group’s current liabilities as at 30 June 2022 are mainly attributable to property, plant and equipment payables amounting to approximately HK\$276,784,000. The Directors of the Company are of the view that the Group will be able to successfully persuade these contractors not to insist on demanding repayment. However, there is no certainty that these contractors will not demand repayment.

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; (iii) the Group being able to raise adequate funding through bank borrowings or otherwise; and (iv) the Group being able to maintain the level of cashflow from operations which is in line with that of the six months ended 30 June 2022. 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 2022.

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 interim 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 2022. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations.

The application 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 Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new standard(s), amendments and interpretation(s) will have no material impact on the unaudited condensed consolidated financial statements.

3. REVENUE AND OPERATING SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (i) the exploration, production and distribution of natural gas segment comprises the operation of the exploration, development, production and sales of natural gas mainly in North Kashi Block, Tarim Basin, Xinjiang, PRC (“**Kashi Project**”) and Karamay, Xinjiang, PRC (“**Karamay Project**”);
- (ii) the sales of food and beverages business segment comprises the sales of food and beverages; and
- (iii) the money lending business comprises provision of loans to third parties.

Management monitors the results of the Group’s operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of net profit/(loss) before tax. The net profit/(loss) before tax is measured consistently with the Group’s net profit before tax.

Segment assets exclude deferred tax assets, cash and deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, lease liabilities, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The segment information provided to the Board for the reportable segments for the six months ended 30 June 2022 and 2021 are as follows:

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

	Exploration, Production and Distribution of Natural Gas <i>HK\$'000</i>	Sales of Food and Beverages Business <i>HK\$'000</i>	Money Lending Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2022				
(unaudited)				
Revenue from external customers	<u>185,555</u>	<u>-</u>	<u>-</u>	<u>185,555</u>
Reportable segment profit/(loss) before income tax	<u>83,064</u>	<u>(236)</u>	<u>(62)</u>	<u>82,766</u>
Segment results included:				
Interest income	694	-	-	694
Interest expense	(21,621)	-	-	(21,621)
Amortisation of intangible assets	(15,741)	-	-	(15,741)
Depreciation of property, plant and equipment	(19,934)	(123)	-	(20,057)
Depreciation of right-of-use assets	(5,736)	-	-	(5,736)
Reversal of impairment of property, plant and equipment	4,316	-	-	4,316
Reversal of impairment of intangible assets	<u>16,603</u>	<u>-</u>	<u>-</u>	<u>16,603</u>
As at 30 June 2022 (unaudited)				
Reportable segment assets	<u>2,644,528</u>	<u>517</u>	<u>18</u>	<u>2,645,063</u>
Reportable segment liabilities	<u>(860,353)</u>	<u>-</u>	<u>-</u>	<u>(860,353)</u>

	Exploration, Production and Distribution of Natural Gas <i>HK\$'000</i>	Sales of Food and Beverages Business <i>HK\$'000</i>	Money Lending Business <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 June 2021				
(unaudited)				
Revenue from external customers	<u>202,564</u>	<u>-</u>	<u>-</u>	<u>202,564</u>
Reportable segment loss before income tax	<u>83,534</u>	<u>(544)</u>	<u>(63)</u>	<u>82,927</u>
Segment results included:				
Interest income	586	-	-	586
Interest expense	(17,043)	-	-	(17,043)
Amortisation of intangible assets	(17,463)	-	-	(17,463)
Depreciation of property, plant and equipment	<u>(20,085)</u>	<u>(123)</u>	<u>-</u>	<u>(20,208)</u>
As at 31 December 2021 (audited)				
Reportable segment assets	2,722,566	663	18	2,723,247
Reportable segment liabilities	<u>(941,512)</u>	<u>-</u>	<u>-</u>	<u>(941,512)</u>

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

	Unaudited	
	six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax		
Reportable segment profit before income tax	82,766	82,927
Other income	359	273
Fair value (loss)/gain of financial assets at fair value through profit or loss	(5,188)	125
Finance costs	(5,262)	(4,748)
Unallocated head office and corporate expenses	<u>(1,603)</u>	<u>(4,204)</u>
Profit before income tax	<u>71,072</u>	<u>74,373</u>

	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Assets		
Reportable segment assets	2,645,063	2,723,247
Property, plant and equipment	54,227	55,004
Other receivables, deposits and prepayments	11,680	12,806
Financial assets at fair value through profit or loss	32,466	37,654
Cash and bank balances	17,385	22,867
	<hr/>	<hr/>
Total assets	2,760,821	2,851,578
	<hr/> <hr/>	<hr/> <hr/>
	Unaudited 30 June 2022 <i>HK\$'000</i>	Audited 31 December 2021 <i>HK\$'000</i>
Liabilities		
Reportable segment liabilities	860,353	941,512
Convertible notes	102,527	97,265
Amount due to a shareholder	32,589	32,589
Other payables and accruals	106	1,228
	<hr/>	<hr/>
Total liabilities	995,575	1,072,594
	<hr/> <hr/>	<hr/> <hr/>

(c) Disaggregation of revenue from contracts with customers:

	Unaudited	
	six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Geographical markets		
The PRC	<u>185,555</u>	<u>202,564</u>
Total	<u><u>185,555</u></u>	<u><u>202,564</u></u>
Major product/service		
Natural gas	<u>185,555</u>	<u>202,564</u>
Total	<u><u>185,555</u></u>	<u><u>202,564</u></u>
Timing of revenue recognition		
At a point of time	<u>185,555</u>	<u>202,564</u>
Total	<u><u>185,555</u></u>	<u><u>202,564</u></u>

4. OTHER INCOME

	Unaudited	
	six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interest income	923	831
Others	<u>1,924</u>	<u>159</u>
	<u><u>2,847</u></u>	<u><u>990</u></u>

5. FINANCE COSTS

	2022	2021
	HK\$'000	HK\$'000
Interest expense on other borrowings	20,923	16,644
Interest expense on lease liabilities	698	399
Interest expense on liability component of convertible notes	5,262	4,748
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	26,883	21,791
	<hr/> <hr/>	<hr/> <hr/>

6. PROFIT BEFORE INCOME TAX

Unaudited	
six months ended 30 June	
	2021
	HK\$'000

The Group's profit before income tax is stated after charging/(crediting):

Depreciation of right-of-use assets	5,736	5,101
Depreciation of property, plant and equipment	20,834	20,984
Amortisation of intangible assets	15,741	17,463
Fair value loss/(gain) of financial assets at fair value through profit or loss	5,188	(125)
Reversal of impairment of property, plant and equipment	(4,316)	–
Reversal of impairment of intangible assets	(16,603)	–
Exchange gains, net	(52)	(57)
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	9,513	8,977
— Pension fund contributions	44	44
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX CHARGE

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

	Unaudited	
	six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Current tax	–	–
Deferred tax charge	<u>9,365</u>	<u>27,042</u>
Total tax expenses for the period	<u>9,365</u>	<u>27,042</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong during both periods. No provision for Enterprise Income Tax in the PRC has been made during both periods as the Group had unused tax losses brought forward to offset the current periods' profit.

According to HKAS 12 Income Taxes, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

8. DIVIDEND

No dividend was paid or proposed for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil), nor has any dividend been proposed since the end of reporting period.

9. EARNINGS PER SHARE

(a) Basic earnings per share

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

	Unaudited	
	six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Profit attributable to owners of the Company	<u>61,875</u>	<u>48,061</u>
	<i>Number of Shares</i>	
Weighted average number of ordinary shares in issue	<u>9,505,344,000</u>	<u>9,505,344,000</u>
	<i>HK Cents</i>	
Basic earnings per share	<u>0.65</u>	<u>0.51</u>

(b) Diluted earnings per share

The calculation of the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2022 is based on the following data:

	30 June 2022 <i>HK\$'000</i>
Profit attributable to owners of the Company	61,875
Adjustments for interest on convertible notes	<u>5,262</u>
Profit attributable to owners of the Company for diluted earnings per share	<u><u>67,137</u></u>
	<i>Number of shares</i>
Weighted average number of ordinary shares in issue	9,505,344,000
Effect of dilutive potential ordinary shares on convertible notes	<u>4,045,654,761</u>
	<u><u>13,550,998,761</u></u>
	<i>HK Cents</i>
Diluted earnings per share	<u><u>0.50</u></u>

For the six months ended 30 June 2021, diluted earnings per share is the same as basic earnings per share as the potential ordinary shares on convertible notes were anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group purchased property, plant and equipment of Nil (six months ended 30 June 2021: HK\$30,124,000).

The Group carried out reviews of the recoverable amount of the Kashi Project (as defined in Note 3) semi-annually. These assets are used in the Group's Exploration, Production and Distribution of Natural Gas segment. Reversal of impairment of approximately HK\$4,316,000 was recognised for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil) as the carrying amount of the related cash-generating unit ("CGU") for the Kashi Project approximates its recoverable amount. The recoverable amount of the relevant asset has been determined on the basis of their value in use using discounted cash flow method. The pre-tax discount rate used was 16.8% for the six months ended 30 June 2022 (six months ended 30 June 2021: 16.8%).

11. EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2022, the Group purchased exploration and evaluation assets of approximately HK\$106,000 (six months ended 30 June 2021: HK\$15,818,000).

The Group carried out reviews of the recoverable amount of the Kashi Project semi-annually. These assets are used in the Group's Exploration, Production and Distribution of Natural Gas segment. No reversal of impairment was recognised for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil) as the carrying amount of the related CGU for the Kashi Project approximates its recoverable amount. The recoverable amount of the relevant asset has been determined on the basis of their value in use using discounted cash flow method. The pre-tax discount rate used was 16.8% for the six months ended 30 June 2022 (six months ended 30 June 2021: 16.8%).

12. INTANGIBLE ASSETS

As at 30 June 2021, 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 2022, amortisation of HK\$15,741,000 (six months ended 30 June 2021: HK\$17,463,000) was provided and is amortised under unit of production method.

No impairment loss of intangible assets was recognised during the six months ended 30 June 2022 (six months ended 30 June 2021: Nil). Reversal of impairment of intangible assets of approximately HK\$16,603,000 (six months ended 30 June 2021: Nil) was recognised during the period ended 30 June 2022 as the recoverable amount of the CGU for the Kashi Project exceeds its carrying amount. The recoverable amount of the CGU for the Kashi Project was based on value in use calculation using discounted cash flow method (level 3 fair value measurements). The pre-tax discount rate used for value in use calculations is 16.8% (six months ended 30 June 2021: 16.8%) for the six months ended 30 June 2022.

13. ACCOUNT RECEIVABLES

Account receivables represent the receivables recognised from the exploration, production and distribution of natural gas segment. Sales to customer is normally made with credit terms of 30 to 60 days. Account receivables as at 30 June 2022 (31 December 2021: Nil) is neither past due nor impaired. The Group did not hold any collateral over the balance.

The balance of sales of natural gas are non-interest bearing. Account receivables in the amount of approximately HK\$63,968,000 were pledged as security for other borrowings as at 30 June 2022 (31 December 2021: Nil).

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 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) <i>HK\$'000</i>
Within 3 months	<u>63,968</u>	<u>1,213</u>

14. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2022 (Unaudited) <i>HK\$'000</i>	As at 31 December 2021 (Audited) <i>HK\$'000</i>
Property, plant and equipment/exploration and evaluation cost payables <i>(note (a))</i>	276,784	399,660
Other payables and accruals <i>(note (b))</i>	<u>74,347</u>	<u>70,541</u>
	<u>351,131</u>	<u>470,201</u>

note (a): Property, plant and equipment/exploration and evaluation cost payables represents balances payable to sub-contractors engaged by the Group to perform exploration, evaluation and development works on the area designated in the Petroleum Contract.

note (b): Included above are the receipt in advance from CNPC amounted to approximately HK\$30,029,000 (31 December 2021: approximately HK\$30,915,000).

15. OTHER BORROWINGS

	As at 30 June 2022 (Unaudited) HK\$'000	As at 31 December 2021 (Audited) HK\$'000
Secured other borrowings	<u>493,000</u>	<u>453,750</u>

The other borrowings were denominated in RMB, charged at 8.5% per annum, repayable partly in 2 years and fully in 3 years from the drawdown date and pledged by the account receivables of the Group (Note 13) under the Petroleum Contract dated 22 December 2008, the supplemental contract dated 6 December 2017, the second supplemental contract dated 20 June 2019 and the gas sales agreement dated 27 April 2020. In addition, the rights of natural gas sharing amount and sales revenue under the product sharing arrangement and the sales agreement were pledged as security for the other borrowings as at 30 June 2022 (31 December 2021: same pledge as at 30 June 2022).

16. 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 2021 and 1 January 2022 (audited)	97,265	695,828
Interest expenses (unaudited)	<u>5,262</u>	<u>–</u>
As at 30 June 2022 (unaudited)	<u>102,527</u>	<u>695,828</u>

Up to 30 June 2022, convertible notes with principal amount of HK\$599,330,000 have been converted into ordinary shares of the Company. No convertible notes have been converted during the six months ended 30 June 2022 and the year ended 31 December 2021.

The convertible notes with outstanding principal amount of HK\$679,670,000 as at 30 June 2022 and 31 December 2021 have maturity date falling 30 years from the date of issue on 3 January 2011.

17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each		
At 30 June 2022 (unaudited) and 31 December 2021 (audited)	<u>25,000,000,000</u>	<u>1,250,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
At 30 June 2022 (unaudited) and 31 December 2021 (audited)	<u>9,505,344,000</u>	<u>475,267</u>

18. RELATED PARTY TRANSACTIONS

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

	Unaudited	
	six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Key management personnel remuneration:		
Directors — short-term employee benefits	810	786
— bonus	<u>2,754</u>	<u>—</u>
	<u>3,564</u>	<u>786</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

As in the first half of 2022, domestic epidemics frequently occurred, static controls and dynamic clearances continued to have an impact on consumption capacity and industrial production, resulting in a significant decline in demand for natural gas which dragged down the Company's natural gas sales volume in the first half. The Group achieved revenue of approximately HK\$185,555,000, representing a decrease of approximately HK\$17,099,000, or 8.4% period-on-period. In addition, as the domestic energy policy carried out planning administration on natural gas pricing while the crude oil walked in the same pace with the international oil price, the natural gas prices kept constant in the first half year but the crude oil price surged which consequentially raised up the prices of a variety of raw materials. The direct cost increased by approximately HK\$7,851,000 for that period. Profit before income tax for the six months ended 30 June 2022 decreased by approximately HK\$3,301,000 when compared with the same period last year partially offset by reversal of impairment of property, plant and equipment of approximately HK\$4,316,000 and reversal of impairment of intangible assets of approximately HK\$16,603,000.

Basic earnings per share attributable to the owners of the company was approximately 0.65 HK cents per share (2021: 0.51 HK cents per share) whereas diluted earnings per share attributable to the owners of the company was approximately 0.50 HK cents per share (2021: 0.51 HK cents per share).

As of 30 June 2022, total assets amounted to approximately HK\$2,760,821,000, (as of 31 December 2021: approximately HK\$2,851,578,000), and net assets attributable to owners of the company were approximately HK\$1,765,246,000 (as of 31 December 2021: approximately HK\$1,778,984,000). The gearing ratio was approximately 36.1% (as of 31 December 2021: approximately 37.6%).

Business Review

Exploration, Production and Distribution of Natural Gas Segment

In the first half of 2022, complex international situation including the end of production curbs by OPEC and major oil-producing countries, the Kazakh emergency, and frequent occurrence of geopolitical events such as the Russia-Ukraine caused an impact on the supply-demand relationship of crude oil and other bulk commodities. On the whole, risk aversion and panic emotions continued to push commodity prices up. For China's environment, there were lockdowns in various areas in China due to pandemic control had caused severe adverse impact on economic development and exerted downward pressure on the economy.

Since May 2022, with efficient coordination and overall improvement of domestic pandemic prevention and control, coupled with the effective implementation of a set of policies and measures to stabilise growth, economic activities gradually grew and rebounded. China's GDP increased by 2.5% year-on-year to approximately RMB56,264.2 billion in the second quarter of 2022, and increased by 0.4% year-on-year to approximately RMB29,246.4 billion in the second quarter.

The Group's indirectly wholly-owned subsidiary, China Era Energy Power Investment (Hong Kong) Limited ("**China Era**") entered into a petroleum contract (the "**Petroleum Contract**") with China National Petroleum Corporation ("**CNPC**") for the drilling, exploration, exploitation and production of oil and/or natural gas in a site located at North Kashi Block, Tarim Basin, Xinjiang, the PRC (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 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. On 20 June 2019, China Era and CNPC entered into a second supplemental agreement to the Petroleum Contract (the "**2nd Supplemental Agreement**") to set out the amount of profit sharing between 2009 and 2017. 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. As disclosed in the Company's announcement dated 28 April 2020, the Gas Sales Agreements ("**GSA**") was signed on 27 April 2020.

The Group's exploration, production and distribution of natural gas segment comprises the natural gas exploration, production and distribution under Kashi Project and the Group's natural gas distribution operation in Karamay, Xinjiang, the PRC. During the period, this segment contributed revenue of HK\$185,555,000 (six months ended 30 June 2021: HK\$202,564,000) and recorded segment profit before income tax of approximately HK\$82,766,000 (six months ended 30 June 2021: segment profit before income tax of approximately HK\$83,534,000). Regarding the Kashi Project, the Group's sharing of natural gas under the Petroleum Contract was approximately 152 million cubic meters ("**MMm³**") for the six months ended 30 June 2022 (six months ended 30 June 2021: 202 MMm³).

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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	185,555	202,564
Direct cost	(29,561)	(21,710)
Other income	2,488	717
Selling and distribution expenses	(17,351)	(20,256)
Operating expenses	(15,954)	(18,089)
Amortisation	(15,741)	(17,463)
Depreciation	(25,670)	(25,186)
Reversal of impairment	20,919	–
Finance cost	(21,621)	(17,043)
	<u>83,064</u>	<u>83,534</u>
Profit from operations before income tax expenses	<u>83,064</u>	<u>83,534</u>

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

	Unaudited	
	six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exploration cost	<u>106</u>	<u>15,818</u>

Sales of Food and Beverages Business

For the six month ended 30 June 2022, the Group did not record any revenue from the sales of food and beverages business segment (six months ended 30 June 2021: Nil). The segment loss before tax expenses was approximately HK\$236,000 (six months ended 30 June 2021: HK\$544,000). The food and beverage industry was greatly affected by COVID-19 outbreak since early 2020. 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 2022, 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 2021: Nil). The segment loss before tax expenses was approximately HK\$62,000 (six months ended 30 June 2021: HK\$63,000). Due to uncertainties on economic outlook affected by COVID-19 and Sino-US trade tension, the Group continued to adopt a stringent credit policy to mitigate the credit risk arising from the money lending business.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2022, the Group has outstanding secured other borrowings of approximately HK\$493,000,000 (31 December 2021: approximately HK\$453,750,000). The cash and cash equivalents of the Group were approximately HK\$150,988,000 (31 December 2021: approximately HK\$167,280,000). The Group's current ratio (current assets to current liabilities) was approximately 58.6% (31 December 2021: approximately 40.5%). The ratio of total liabilities to total assets of the Group was approximately 36.1% (31 December 2021: approximately 37.6%).

As at 30 June 2022, the Company has outstanding convertible notes in the principal amount of approximately 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 in the amount of approximately HK\$63,968,000 were pledged as security for other borrowings as at 30 June 2022 (31 December 2021: Nil).

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

As at 30 June 2022, the Group had capital commitments relating to Kashi Project of approximately HK\$98,246,000 (31 December 2021: approximately HK\$114,575,000) (including approximately HK\$5,873,000 (31 December 2021: approximately HK\$517,233) which would be borne by CNPC), and approximately HK\$127,600,000 (31 December 2021: approximately HK\$133,100,000) relating to capital contributions in a subsidiary of the Group, respectively.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2022 and 31 December 2021.

Employee Information

As at 30 June 2022, the Group had a total workforce of 41 (31 December 2021: 43). 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 extended by CNPC pursuant to the Supplemental Agreement), 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. As disclosed in the Company's announcement dated 28 April 2020, the GSA was signed on 27 April 2020. Following the operation of the new gas processing facilities on 1 July 2020, the Joint Management Committee of North Kashi Block Cooperation Project resolved that the commercial production stage commenced with effect from 1 October 2020. The Company's management 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.

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 uncertainties on the economic outlook. 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 the maintenance of 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 2022, the Group has complied with the CG Code except for the following:

- a. Pursuant 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. According 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. Pursuant 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. According to A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend the Company’s AGM. Certain directors were unable to attend the Company’s AGM held on 10 June 2022 due to COVID-19 travel restrictions or 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 2022 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 2022 containing all information required by the Listing Rules will be dispatched to Shareholders and made available on the above websites in due course.

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

Hong Kong, 22 August 2022

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. Zhang Zhenming, Mr. Cheng Chun Ying and Mr. Lee Man Tai as independent non-executive directors.