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

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 00228)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "**Board**") of China Energy Development Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2012 together with comparative figures for 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Turnover	*3*	**61,951**	73,876
Other income		**621**	374
Cost of inventories consumed		**(38,886)**	(39,297)
Staff costs		**(25,086)**	(33,055)
Operating lease rentals		**(8,931)**	(9,517)
Depreciation of property, plant and equipment		**(916)**	(1,593)
Fuel costs and utility expenses		**(2,445)**	(3,964)
Fair value loss of financial assets held for trading		**(3,115)**	(7,920)
Impairment loss of deposits and other receivables		**–**	(14,369)
Impairment loss of loan receivables		**–**	(51,941)
Gain on disposal of assets and liabilities held for sale		**5,828**	–
Other operating expenses		**(19,733)**	(29,140)
Finance costs	*11*	**(10,771)**	(10,618)
Loss before income tax	*4*	**(41,483)**	(127,164)
Income tax credits	*5*	**5,138**	4,328
Loss for the year		**(36,345)**	(122,836)

* *For identification purposes only*

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**28,949**	13,372
Total comprehensive income for the year		**(7,396)**	(109,464)
Loss attributable to:			
Owners of the Company		**(36,345)**	(122,836)
Non-controlling interests		**–**	–
		(36,345)	(122,836)
Total comprehensive income attributable to:			
Owners of the Company		**(7,396)**	(109,464)
Non-controlling interests		**–**	–
		(7,396)	(109,464)
Loss per share	*7*		
— Basic (HK cents)		**(0.46)**	(1.80)
— Diluted (HK cents)		**(0.46)**	(1.80)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**2012** **HK$'000**	2011 *HK$'000*
Non-current assets			
Property, plant and equipment		**4,352**	4,268
Exploration and evaluation assets		**607,273**	602,105
Intangible assets		**2,970,539**	2,946,388
Rental deposits and other deposits		**80**	416
Deferred tax assets		**83,305**	77,481
		3,665,549	3,630,658
Current assets			
Inventories		**7,263**	9,754
Trade receivables	*8*	**319**	9
Financial assets held for trading		**2,372**	5,487
Other receivables, deposits and prepayments		**14,028**	14,067
Amounts due from related companies		**9,383**	4,681
Cash and bank balances		**316,354**	378,011
		349,719	412,009
Assets of a disposal company classified as held for sale		**–**	5,711
		349,719	417,720
Total assets		**4,015,268**	4,048,378

	Notes	2012 HK$'000	2011 HK$'000
Current liabilities			
Trade payables	9	**6,270**	8,749
Other payables and accruals		**348,560**	386,193
Amount due to a related company		**4,800**	6,954
Provision for legal claims	10	**–**	5,000
		359,630	406,896
Liabilities of a disposal company classified as held for sale		**–**	4,002
		359,630	410,898
Net current (liabilities)/assets		**(9,911)**	6,822
Total assets less current liabilities		**3,655,638**	3,637,480
Non-current liabilities			
Convertible notes	11	**110,320**	99,549
Other payables		**75,030**	51,240
Amount due to a shareholder		**33,402**	42,409
Deferred tax liabilities		**53**	53
Provision for long service payments		**86**	86
		218,891	193,337
Net assets		**3,436,747**	3,444,143
Equity			
Share capital		**396,056**	396,056
Reserves		**3,039,938**	3,047,334
Attributable to owners of the Company		**3,435,994**	3,443,390
Non-controlling interests		**753**	753
Total equity		**3,436,747**	3,444,143

Notes

1. BASIS OF PREPARATION

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

b. Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

During the year, the Group has incurred a loss of HK$36,345,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$9,911,000. 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 directors anticipate the negotiation of the Gas Sales Agreement ("**GSA**") with China National Petroleum Corporation ("**CNPC**") will complete shortly after the PRC government has announced the details of the reform of natural gas pricing mechanism. The GSA with CNPC covers a number of provisions, such as terms of the GSA, quantity of volume commitments, gas quality, price terms, delivery obligations and delivery point etc. The major point is that the Group has yet to agree with CNPC on pricing terms. The natural gas pricing reform will close the price gap between imported and local gas prices. It has been gradually implemented in phases in certain provinces in the PRC in 2012 and is expected to be adopted in all other provinces in coming years. The reformed pricing mechanism on natural gas is a major reference point for the Group to negotiate the pricing terms with CNPC. The Group believes that the reform will lead to an increase in domestic natural gas price which will be to the benefit of the Group. Based on the current information available to the directors, the directors expected that the GSA could be finalised in the year 2013. The Group will then accelerate the development and production of oil/gas in the field so that the overall financial performance of the Group will be significantly improved, as well as its operating cash position. The Group will also continue to renegotiate the payment terms with those contractors of exploration and evaluation assets so as to delay the repayment. During the current year, the Group has successfully negotiated with a contractor to delay the repayment of the amount HK$75,030,000 and stated as non-current liabilities as at 31 December 2012. The major shareholder has also undertaken not recalling the amount due to it until the Group is able to pay its other creditors in the normal course of business, in order to maintain the Group as a going concern.

The directors have carried out a detailed review of the cash flow forecast of the Group for the eighteen months ending 30 June 2014 taking into account the measures as referred to above, and consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the period of the forecast. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to write down the values of the assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs effective 1 January 2012

Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets

The adoption of these new/revised standards and interpretations has no material impact on the Group's consolidated financial statements.

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

The following new/revised HKFRSs, potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted by the Company and its subsidiaries ("the Group"):

HKFRSs (Amendments)	Annual Improvements 2009–2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 19 (2011)	Employee Benefits[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[3]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group's financial statements.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group has the following two reportable segments:

The Exploration and Production segment is engaged in the exploration, development, production and sales of natural gas.

The Sales of Food and Beverages Business segment is engaged in the operation of Chinese restaurants being disposed during the year ended 31 December 2012 and the sales of food and beverages to restaurants.

The segment information provided to the Board for the reportable segments for the years ended 31 December 2012 and 2011 are as follows:

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

	Exploration and Production *HK$'000*	**Sales of Food and Beverages Business** *HK$'000*	**Total** *HK$'000*
For the year ended 31 December 2012			
Revenue from external customers	**–**	**61,951**	**61,951**
Reportable segment (loss)/profit before income tax	**(26,332)**	**7,404**	**(18,928)**
Segment results included:			
Interest income	**156**	**–**	**156**
Depreciation	**830**	**64**	**894**
Additions to non-current assets	**1,196**	**–**	**1,196**
Reportable segment assets	**3,890,246**	**17,821**	**3,908,067**
Reportable segment liabilities	**(412,975)**	**(15,977)**	**(428,952)**

	Exploration and Production *HK$'000*	Sales of Food and Beverages Business *HK$'000*	Total *HK$'000*
For the year ended 31 December 2011			
Revenue from external customers	–	73,876	73,876
Reportable segment loss before income tax	(33,390)	(65)	(33,455)
Segment results included:			
Interest income	343	–	343
Depreciation	965	577	1,542
Additions to non-current assets	3,532,355	1,005	3,533,360
Reportable segment assets	3,922,613	21,018	3,943,631
Reportable segment liabilities	(424,463)	(26,578)	(451,041)

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

	2012	2011
	HK$'000	*HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(18,928)**	(33,455)
Other income	**14**	12
Impairment loss on deposits and other receivables	**–**	(14,369)
Impairment loss on loan receivables	**–**	(51,941)
Fair value loss of financial assets held for trading	**(3,115)**	(7,920)
Finance costs	**(10,771)**	(10,618)
Unallocated head office and corporate expenses	**(8,683)**	(8,873)
Loss before income tax	**(41,483)**	(127,164)

	2012	2011
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**3,908,067**	3,943,631
Deferred tax assets	**83,305**	77,481
Other receivables	**98**	240
Financial assets held for trading	**2,372**	5,487
Unallocated head office and corporate assets	**21,426**	21,539
Total assets	**4,015,268**	4,048,378

	2012	2011
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**428,952**	451,041
Deferred tax liabilities	**53**	53
Convertible notes	**110,320**	99,549
Amount due to a shareholder	**33,402**	42,409
Unallocated head office and corporate liabilities	**5,794**	11,183
Total liabilities	**578,521**	604,235

(c) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than deferred tax assets and assets held for sale ("Specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**61,951**	73,876	**375**	1,072
People's Republic of China ("PRC")	**–**	–	**3,581,869**	3,552,105
	61,951	73,876	**3,582,244**	3,553,177

4. LOSS BEFORE INCOME TAX

	2012	2011
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**880**	1,000
Cost of inventories consumed	**38,886**	39,297
Depreciation of property, plant and equipment	**916**	1,593
Loss on disposal of property, plant and equipment	**1**	45
Exchange loss, net	**2,486**	8,417
Impairment of inventories	**81**	–
Gain on disposal of a subsidiary	**(5,828)**	–
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	**24,529**	32,217
— Pension fund contributions	**557**	838
	25,086	33,055
Operating lease payment on lease premises		
— Related companies	**2,720**	4,354
— Third parties	**6,211**	5,163
	8,931	9,517

5. INCOME TAX CREDITS

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

	2012	2011
	HK$'000	*HK$'000*
Current tax — PRC	**(9)**	(5)
Deferred tax	**5,147**	4,333
Total income tax credit	**5,138**	4,328

No provision for Hong Kong profits tax has been made as the Group had tax losses for both years. PRC enterprise income tax is calculated at 25% on the estimated assessable profit for the year.

The income tax credits for the year can be reconciled to the loss before income tax per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	*HK$'000*
Loss before income tax	**(41,483)**	(127,164)
Effect of tax at Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**(6,845)**	(20,982)
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(1,934)**	(1,469)
Tax effect of income not taxable for tax purposes	**(1,170)**	(111)
Tax effect of expenses not deductible for tax purposes	**3,315**	13,904
Tax effect of utilisation of tax losses	**(192)**	(25)
Tax effect of unused tax losses not recognised	**1,688**	4,355
Income tax credits for the year	**(5,138)**	(4,328)

6. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2012 (2011: Nil), nor has any dividend been proposed since the end of reporting period. (2011: Nil)

7. LOSS PER SHARE

(a) Basic

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

	2012	2011
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**(36,345)**	(122,836)
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**7,921,120,000**	6,813,495,231
	HK Cents	HK Cents
Basic loss per share	**0.46**	1.80

(b) Diluted

Diluted loss per share is the same as basic loss per share for the year ended 31 December 2012 and 2011 as the potential ordinary shares on convertible notes are anti-dilutive.

8. TRADE RECEIVABLES

Customers are usually offered a credit period ranging from one to three months. An ageing analysis of trade receivables as at 31 December 2012 and 2011 is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Current to 3 months	**319**	9

All trade receivables are neither individually nor collectively considered to be impaired as there was no recent history of default and relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

9. TRADE PAYABLES

An ageing analysis of trade payables of the Group as at 31 December 2012 and 2011 is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade payables		
Current to 3 months	**3,324**	5,803
Over 1 year	**2,946**	2,946
Total trade payables	**6,270**	8,749

10. PROVISION FOR LEGAL CLAIMS

On 1 April 2009, Sican Petroleum Plc (the "Plaintiff") issued a Writ of Summons against China Era Energy Power Investment (Hong Kong) Limited ("China Era") and several other parties (collectively called the "Defendants") claiming an interest in the petroleum contract awarded to China Era and its cooperation partner in PRC on 22 December 2008 for exploration and development of the oil and gas blocks in Xinjiang Province, the PRC, pursuant to an agreement dated 18 May 2007 allegedly entered into between the Plaintiff and the China Era.

According to the legal opinion issued by the legal counsel, it is estimated that the amount of damages liable by the Defendants would not exceed HK$5 million. The Group has provided for the potential damages of HK$5 million as of 31 December 2011. The settlement sum has been paid by the Group in the amount of HK$5 million on 3 January 2012 to the plaintiff.

11. CONVERTIBLE NOTES

Pursuant to the acquisition of subsidiaries, the Company issued Tranche 1 zero coupon convertible notes with principal amount of HK$2,558,000,000 with maturity date falling 30 years from the date of issue on 3 January 2011.

The convertible notes do not bear any interest and are freely transferable, provided that where the convertible notes are intended to be transferred to a connected person (as defined in the Listing Rules) of the Group (other than the associates of the noteholder) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange, if any.

The noteholders may at any time during the 30 years from the issue date convert the whole or part of the principal amount of the convertible notes into new ordinary shares of the Company at the conversion price of HK$0.168 per share, provided that (i) no conversion rights attached to the convertible notes may be exercised, to the extent that following such exercise, a holder of the convertible notes and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued shares of the Company (or in such percentage of the issued share capital of the Company as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); and (ii) no holder of the convertible notes shall exercise the conversion right attached to the convertible notes held by such holders if immediately after such conversion, the public float of the shares fall below the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules as required by the Stock Exchange. The conversion price of HK$0.168 per share is subject to adjustment for consolidation, sub-division or re-classification of shares, capital reduction, rights issues and other events which have diluting effects on the issued share capital of the Company.

The fair values of the liability component and the equity component were determined at the issuance of the convertible notes. The fair value of the liability component, included in the non-current liabilities, was calculated using a market interest rate of equivalent non-convertible notes. The effective interest rate of the liabilities component is 11% and the interest expenses will be charged to income statement over the loan periods. The equity component of the convertible notes, representing the difference of the fair value of the convertible notes and the fair value of the liabilities component, was included in the owner's equity and denoted as convertible notes reserves.

The movement of the principal amount, liability component and equity component of the convertible notes are as follows:

	Carrying amount	
	Liability component	**Equity component**
	HK$'000	*HK$'000*
At 1 January 2011	–	–
Issued during the year	117,316	2,618,811
Converted into ordinary shares during the year	(28,385)	(613,578)
Interest expenses	10,618	–
At 31 December 2011 and 1 January 2012	99,549	2,005,233
Interest expenses	10,771	–
At 31 December 2012	110,320	2,005,233

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 3(b) to the consolidated financial statements which indicates that the Group incurred a loss of HK$36,345,000 for year ended 31 December 2012 and its current liabilities exceeded current assets by HK$9,911,000 as at that date. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern."

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the year under review, the Group recorded the turnover from the food and beverages business of approximately HK$61,951,000 (2011: HK$73,876,000), an decrease of 16% as compared to the last year. The decrease in turnover was mainly due to the decrease in revenue as a result of the disposal of a Chinese restaurant during the year.

The Group recorded a loss for the year attributable to the owners of the Company of approximately HK$36,345,000 compared to a loss of approximately HK$122,836,000 to the corresponding period in 2011. Loss per share attributable to the owners of the Company was 0.46 HK cents (2011: 1.80 HK cents).

Business Review

Exploration and Production Segment

The Group has successfully completed the Acquisition of Totalbuild Investments Group in 2011 which has entered into Petroleum Contract with CNPC for the drilling, exploration, exploitation and production of oil and/or natural gas within the specified site located in North Kashi Block, Tarim Basin, Xinjiang, PRC. The term of the Petroleum Contract is for a term of 30 years commencing 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 management have devoted much of its resources during the period in exploration and research studies.

The development period of any oil/gas field will start from the date of the completion of the Overall Development Program ("**ODP**"). ODP is a document that is required to be approved by the relevant government authorities before the development can commence. ODP comprises a formal development engineering plan, backed up by survey results and relevant studies, together with a full economic analysis and time schedule of the development operations. The approval of the ODP was previously expected to be ready by 2011. However, there was delay in finalizing the ODP documentation and the preparation of formal reserve report. Base on current information available to the directors, the directors expect that the ODP should be ready by 2013 and the production period should start immediately after obtaining relevant government approval.

After the completion of Acquisition and up to now, the Group has been carrying out exploration activities at the Site. Latest data and information about the petroleum resources were obtained as a result of these exploration activities. Further studies were being carried out with CNPC and other professional parties on such information. The Group is now working with these professional parties to prepare and revise the reserve report. The preparation of the formal reserve report is a part of the ODP which required government approval before full production could be started. The delay in finalizing the formal reserve report together with the ODP is the major reason for the delay in government approval.

During the period subsequent to the Acquisition, we are carrying out pilot productions with CNPC at the Site, 266,290,000 cubic meters of gas was being extracted in the year 2012. The information obtained will form part of the information to be applied in the ODP. The gas so produced during the pilot productions has been sold to the local customers by CNPC near the Site area.

As at 31 December 2012, the acquired oil/gas field has approximately estimated contingent resources of 47.4 million (2011: 47.4 million) barrels oil and 11,956 (2011: 12,086 million m^3) million m^3 natural gas (based on Group's share of participated interests). 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, (i) no definitive Gas Sales Agreement ("**GSA**") nor accurate information on likely future sales prices; (ii) the future overall development program is still to be developed and approved; and (iii) the field is situated in a remote location.

During the year, the exploration and production segment did not recognize any revenue and the Group is still negotiating with CNPC regarding the price term. The segment loss before income tax was approximately HK$26,332,000 (2011: HK$33,390,000). The results of operations in exploration and production segment and costs incurred for exploration and evaluation assets acquisition and exploration activities are shown as below:

(a) Results of operations in exploration and production segment

	For the year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
Net sales to customers	**–**	–
Other income	**156**	343
Operating expenses	**(25,658)**	(32,768)
Depreciation	**(830)**	(965)
Result of operations before income tax expenses	**(26,332)**	(33,390)

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

	For the year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
Acquisition costs	**–**	–
Exploration cost incurred during the year	**229**	2,544
	229	2,544

Sales of Food and Beverages Business

The Chinese restaurant in Hong Kong had been facing the high rental costs and high inflation, together with the persistent increase in raw materials costs and labour costs pose challenges to the Group. On 31 July 2012, the Group completed the disposal of Ocean Grace Investment Limited (the "**Disposal**") which is principally engaged in operating a Chinese restaurant in Hong Kong, for an aggregate consideration of HK$5,900,000 and recorded a gain of HK$5,828,000. After completion of the Disposal, the Group will continue to operate the sales of food and beverages business and implement a tighter cost control on the remaining business.

For the year ended 31 December 2012, the Group recorded a turnover from the sales of food and beverages business of approximately HK$61,951,000 (2011: HK$73,876,000), an decrease of 16% as compared to the last year. The decrease in turnover was because the disposal of a Chinese restaurant. The segment profit before tax expenses was approximately HK$7,404,000 (2011: loss of HK$65,000) mainly attributable to the gain from the Disposal.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2012, the Group had no outstanding interest-bearing borrowings (2011: Nil). The cash and cash equivalents of the Group were approximately HK$316,354,000 (2011: HK$378,011,000). The Group's current ratio (current assets to current liabilities) was approximately 1.0 (2011: 1.0). The ratio of total liabilities to total assets of the Group was approximately 14.4% (2011: 14.9%).

As at 31 December 2012, the convertible notes outstanding principal amount of HK$1,958,670,000 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 11,658,750,000 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.

Charges of Assets

None of the assets of the Group were pledged as security for any banking facilities and borrowings as at 31 December 2012 and 2011.

Exchange Exposure

The Group mainly operates in Hong Kong and PRC and the exposure in exchange rate risks mainly arises from fluctuations in the HK dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. The policy of the Group for its operating entities operates in their corresponding local currencies to minimize currency risks. The Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimizing exchange rate risks during the year. However, management will monitor foreign currency exposure and will consider hedging significant foreign currency exposure if necessary.

Capital Commitments

The Group had capital commitments of approximately HK$261,475,000 as at 31 December 2012 (2011: HK$259,350,000).

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2012 and 2011.

Employee Information

As at 31 December 2012, the Group had a total workforce of 46 (2011: 154). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

Major Transaction

On 28 December 2011, Hon Po International Limited ("**Vendor**"), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company, entered into the agreement with the Purchaser, a third party independent of the Company, whereby the Vendor has agreed to sell, and the Purchaser has agreed to purchase, the Ocean Grace Investments Limited ("**OGIT**") sale shares and the OGIT sale loan for an aggregate consideration of HK$5,900,000. The Disposal was approved by the shareholders of the Company at the extraordinary general meeting dated 20 July 2012. All conditions precedent had been fulfilled and the Disposal was completed on 31 July 2012. Details of information were set out in the circular of the Company dated 29 June 2012.

Prospects

Natural Resource Industries

The Group has been seeking investment opportunities from time to time to broaden the Group's sources of income. The success of the Acquisition of the Totalbuild Investments Group in 2011 enables the Group to diversify its business into natural resources business. Although the delay in the production plan of oil/gas in Xinjiang will delay the return for the capital investment in oil and gas business, the management of the Group maintains its long-term confidence on the natural gas and oil industries and the Acquisition will broaden the revenue stream of the Group in the future.

Sales of Food and Beverages Business

It is expected that the sales of food and beverages business will still generate stable revenue. However, the persistent increase in raw materials costs and labour costs pose challenges to the Group, we will take a very cautious approach to manage its operation and implement a tighter costs control in the near future.

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 2012.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain good corporate governance standard and procedures.

The Company's has complied with the Code on Corporate Governance Practices (for the period from 1 January 2012 to 31 March 2012) and the Corporate Governance Code (for the period from 1 April 2012 to 31 December 2012) (the "**CG Code**") contained in Appendix 14 of the Listing Rules, except for:

A.2.1 of the CG Code which states that 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 clearly established and set out in writing. Since the position of chairman is vacated, the Board is currently identifying the suitable candidate to fill the vacancy and will ensure that the chairman will be appointed as soon as possible.

E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting (the "**AGM**"). However, the chairman is vacated. Mr. Zhao Guoqiang as the CEO will attend the AGM and will be available to answer questions at the AGM. The Company carries out periodically reviews its corporate governance practice to ensure that these continue to meet the requirement of CG Code.

A4.1 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 year 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.

A.6.7 of the CG Code, Mr. Sun Xiaoli and Mr. Fu Dali, the independent non-executive directors, were unable to attend the AGM of the Company held on 13 June 2012 as they were out of town for other businesses.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 directors have confirmed following specific enquiry by the Company that they have complied with the required standard set out in the Model Code through the year under review.

AUDIT COMMITTEE

The audit committee comprises 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 audited financial statements for the year ended 31 December 2012 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.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the announcement of the Group's consolidated statements of comprehensive income and financial position and the related notes thereto for the year ended 31 December 2012 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the announcement.

REMUNERATION COMMITTEE

The remuneration committee was established for the purpose of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The written terms of reference have described the authority and duties of the remuneration committee which in line with the CG Code were prepared and adopted. The remuneration committee comprises three independent non-executive directors, namely Mr. Fu Wing Kwok, Ewing, Mr. Sun Xiaoli and Mr. Wang Yongguang.

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). The annual report of the Company for the year ended 31 December 2012 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and will be available on websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 27 March 2013

As at the date of this announcement, the Board comprises Mr. Zhao Guoqiang, Mr. Chui Kwong Kau, Mr. Liu Baohe, Mr. Zhang Zhenming and Mr. Huang Changbi as executive directors; and Mr. Fu Wing Kwok, Ewing, Mr. Sun Xiaoli and Mr. Wang Yongguang as independent non-executive directors.