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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013 together with comparative figures for 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013**	2012
		HK$'000	*HK$'000*
Turnover	*3*	**36,687**	61,951
Other income	*4*	**68**	621
Cost of inventories consumed		**(32,710)**	(38,886)
Staff costs		**(12,550)**	(25,086)
Operating lease rentals		**(6,622)**	(8,931)
Depreciation of property, plant and equipment		**(697)**	(916)
Fuel costs and utility expenses		**(504)**	(2,445)
Fair value gain/(loss) of financial assets held for trading		**121**	(3,115)
Gain on disposal of assets and liabilities held for sale		**–**	5,828
Other operating expenses		**(20,390)**	(19,733)
Finance costs		**(11,936)**	(10,771)
Loss before income tax	*5*	**(48,533)**	(41,483)
Income tax credits	*6*	**4,314**	5,138
Loss for the year		**(44,219)**	(36,345)

* *For identification purposes only*

	Notes	**2013**	2012
		HK$'000	*HK$'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**115,416**	28,949
Total comprehensive income for the year		**71,197**	(7,396)
Loss attributable to:			
Owners of the Company		**(44,219)**	(36,345)
Non-controlling interests		**–**	–
		(44,219)	(36,345)
Total comprehensive income attributable to:			
Owners of the Company		**71,197**	(7,396)
Non-controlling interests		**–**	–
		71,197	(7,396)
Loss per share	*8*		
— Basic (HK cents)		**(0.56)**	(0.46)
— Diluted (HK cents)		**(0.56)**	(0.46)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Non-current assets			
Property, plant and equipment		**3,843**	4,352
Exploration and evaluation assets		**727,183**	607,273
Intangible assets		**3,067,142**	2,970,539
Rental deposits and other deposits		**–**	80
Deferred tax assets		**90,410**	83,305
		3,888,578	3,665,549
Current assets			
Inventories		**9,059**	7,263
Trade receivables	*9*	**10**	319
Financial assets held for trading		**2,493**	2,372
Other receivables, deposits and prepayments		**7,173**	14,028
Amounts due from related companies		**8,507**	9,383
Cash and bank balances		**317,452**	316,354
		344,694	349,719
Total assets		**4,233,272**	4,015,268
Current liabilities			
Trade payables	*10*	**6,736**	6,270
Other payables and accruals		**437,860**	348,560
Amount due to a related company		**5,073**	4,800
		449,669	359,630
Net current liabilities		**(104,975)**	(9,911)
Total assets less current liabilities		**3,783,603**	3,655,638

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Non-current liabilities			
Convertible notes	*11*	**122,256**	110,320
Other payables		**112,862**	75,030
Amount due to a shareholder		**40,402**	33,402
Deferred tax liabilities		**53**	53
Provision for long service payments		**86**	86
		275,659	218,891
Net assets		**3,507,944**	3,436,747
Equity			
Share capital		**396,056**	396,056
Reserves		**3,111,135**	3,039,938
Attributable to owners of the Company		**3,507,191**	3,435,994
Non-controlling interests		**753**	753
Total equity		**3,507,944**	3,436,747

Notes:

1. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants 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 financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

During the year, the Group has incurred a loss of HK$44,219,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$104,975,000. 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 as the People's Republic of China ("**PRC**") government has announced the details of the reform of natural gas pricing mechanism on 28 June 2013. 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 closed the price gap between imported and local gas prices. 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 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 2014 or early 2015. The Group will then accelerate the exploration, development and pilot-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 substantial 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. A preliminary natural gas sharing proposal is discussed and agreed by the joint management committee which comprises representatives from CNPC and the Group at 18 February 2014 (the "**Proposal**"). Based on the Proposal, the Group will receive the proposed distribution of natural gas from pilot-production which was delivered and sold before 1 January 2014 based on a preliminary gas price. The directors expected such proposed distribution will be received during year 2014 and 2015. However, the unit price in the Proposal is only a preliminary unit price used for this preliminary sharing, the final unit price is still subject to change and would only be confirmed after the formal GSA signed.

The directors have carried out a detailed review of the cash flow forecast of the Group for the eighteen months ending 30 June 2015 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.

(c) Functional and presentation currency

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

2. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs — effective 1 January 2013

HKFRSs (Amendments)	Annual Improvements 2009–2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits

The adoption of these amendments has no material impact on the Group's financial statements, except for presentation only.

(b) New/revised HKFRSs that have been issued and have been early adopted

Amendments to HKAS 36	Recoverable Amount Disclosures

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

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 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 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 2013 and 2012 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 2013			
Revenue from external customers	**–**	**36,687**	**36,687**
Reportable segment loss before income tax	**(19,696)**	**(306)**	**(20,002)**
Segment results included:			
Interest income	**59**	**–**	**59**
Depreciation	**635**	**62**	**697**
Additions to non-current assets	**98,584**	**60**	**98,644**
Reportable segment assets	**4,102,483**	**18,289**	**4,120,772**
Reportable segment liabilities	**(540,504)**	**(16,748)**	**(557,252)**

	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)

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

	2013 ***HK$'000***	2012 *HK$'000*
Loss before income tax		
Reportable segment loss before income tax	**(20,002)**	(18,928)
Other income	**9**	14
Fair value gain/(loss) of financial assets held for trading	**121**	(3,115)
Finance costs	**(11,936)**	(10,771)
Unallocated head office and corporate expenses	**(16,725)**	(8,683)
Loss before income tax	**(48,533)**	(41,483)

	2013 ***HK$'000***	2012 *HK$'000*
Assets		
Reportable segment assets	**4,120,772**	3,908,067
Deferred tax assets	**90,410**	83,305
Other receivables	**591**	98
Financial assets held for trading	**2,493**	2,372
Unallocated head office and corporate assets	**19,006**	21,426
Total assets	**4,233,272**	4,015,268

	2013 ***HK$'000***	2012 *HK$'000*
Liabilities		
Reportable segment liabilities	**557,252**	428,952
Deferred tax liabilities	**53**	53
Convertible notes	**122,256**	110,320
Amount due to a shareholder	**40,402**	33,402
Unallocated head office and corporate liabilities	**5,365**	5,794
Total liabilities	**725,328**	578,521

(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 ("**Specified non-current assets**").

	Revenue from external customers		Specified non-current assets	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**36,687**	61,951	**264**	375
PRC	**–**	–	**3,797,904**	3,581,869
	36,687	61,951	**3,798,168**	3,582,244

4. OTHER INCOME

	2013	2012
	HK$'000	*HK$'000*
Bank interest income	**60**	156
Rental income	**–**	17
Sundry income	**8**	448
	68	621

5. LOSS BEFORE INCOME TAX

	2013	2012
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging/(crediting):		
Auditor's remuneration	**900**	880
Cost of inventories consumed	**32,710**	38,886
Depreciation of property, plant and equipment	**697**	916
Loss on disposal of property, plant and equipment	**–**	1
Exchange loss, net	**9,544**	2,486
Impairment of inventories	**–**	81
Gain on disposal of a subsidiary	**–**	(5,828)
Staff costs (including directors' remuneration)		
— Wages and salaries and other benefits	**12,427**	24,529
— Pension fund contributions	**123**	557
	12,550	25,086
Operating lease rentals		
— Related companies	**575**	2,720
— Third parties	**6,047**	6,211
	6,622	8,931

6. INCOME TAX CREDITS

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

	2013	2012
	HK$'000	*HK$'000*
Current tax — PRC	**(11)**	(9)
Current tax — Hong Kong profits tax		
— under provision in respect of prior years	**(2)**	–
Deferred tax — current year	**4,327**	5,147
Total income tax credit	**4,314**	5,138

Hong Kong profits tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the year. 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:

	2013	2012
	HK$'000	*HK$'000*
Loss before income tax	**(48,533)**	(41,483)
Effect of tax at Hong Kong profits tax rate of 16.5% (2012: 16.5%)	**(8,008)**	(6,845)
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(1,065)**	(1,934)
Tax effect of income not taxable for tax purposes	**(42)**	(1,170)
Tax effect of expenses not deductible for tax purposes	**3,624**	3,315
Tax effect of utilisation of tax losses	**–**	(192)
Tax effect of unused tax losses not recognised	**1,175**	1,688
Under provision in respect of prior years	**2**	–
Income tax credits for the year	**(4,314)**	(5,138)

7. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2013 (2012: Nil), nor has any dividend been proposed since the end of reporting period (2012: Nil).

8. 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.

	2013	2012
	HK$'000	*HK$'000*
Loss attributable to owners of the Company	**44,219**	36,345
	Number of shares	*Number of shares*
Weighted average number of ordinary shares in issue	**7,921,120,000**	7,921,120,000
	HK Cents	*HK Cents*
Basic loss per share	**0.56**	0.46

(b) Diluted

Diluted loss per share is the same as basic loss per share for the year ended 31 December 2013 and 2012 as the potential ordinary shares on convertible notes are anti-dilutive.

9. 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 2013 and 2012 is as follows:

	Group	
	2013	2012
	HK$'000	*HK$'000*
Current to 3 months	**10**	319

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.

10. TRADE PAYABLES

An ageing analysis of trade payables of the Group as at 31 December 2013 and 2012 is as follows:

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Current to 3 months	**3,790**	3,324
Over 1 year	**2,946**	2,946
Total trade payables	**6,736**	6,270

11. CONVERTIBLE NOTES

On 22 January 2009, the Company, Totalbuild Investments Holdings Group Limited (the "**Vendor**"), Mr. Wang Guoju, as guarantor for the Vendor, China Era Energy Power Investment (Hong Kong) Limited ("**China Era**"), as a guarantor for the Vendor, entered into the agreement (the "**Agreement**") in relation to proposed acquisition of 100% equity interest in the Totalbuild Investments Group (Hong Kong) Limited ("**Totalbuild Investments**"). Totalbuild Investments holds the entire issued share capital of China Era which has entered into the petroleum contract with CNPC.

On 3 January 2011, all the conditions of the acquisition of the first designated area of the Akemomu Gas Field (the "**First Designated Area**") and the entire issued share capital (the "**Acquisition**") of Totalbuild Investments and its subsidiaries (the "**Totalbuild Investments Group**") have been fulfilled.

As a result of completion of the Acquisition sale share and the First Designated Area, the Tranche 1 consideration in the sum of HK$2,558,000,000 was paid by the Company with Tranche 1 convertible notes of HK$2,558,000,000 at the conversion price of HK$0.168 each, to the Vendor including the shortfall amount of HK$1,279,000,000 which was deposited with an escrow agent pursuant to the Agreement. The sale loan consideration payable by the Company in the sum of HK$906,299,000 was satisfied by deducting the deposit in the sum of HK$804,000,000 and with the balance of HK$102,299,000 to be settled in cash or otherwise agreed.

According to the Agreement, the shortfall amount of HK$1,279,000,000 convertible notes should only be released to the Vendor upon the Company having received a written certificate issued by the competent evaluator confirming that the First Designated Area be evaluated on the basis of unrisked economic evaluation within the six years period from 1 June 2009 (the "**Relevant Period**"). As at 31 December 2013, the written certificate has not yet been issued and the convertible notes have not yet been release to the Vendor.

In addition, according to the Agreement, the Group is not entitled to the benefits and interests of the second designated area in the Akemomu Gas Field. A separate shareholders' approval will be required for the Acquisition of the second designated area by issuing additional convertible bonds of not more than HK$7,442,000,000 subjected to the fulfillment of certain conditions as stipulated in the Agreement within the Relevant Period.

The Tranche 1 zero coupon convertible notes with principal amount of HK$2,558,000,000 with maturity in 30 years was issued 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 2012	99,549	2,005,233
Interest expenses	10,771	–
At 31 December 2012 and 1 January 2013	110,320	2,005,233
Interest expenses	11,936	–
At 31 December 2013	122,256	2,005,233

No convertible notes have been converted during the years ended 31 December 2012 and 2013.

The convertible notes with outstanding principal amount of HK$1,958,670,000 as at 31 December 2013 and 2012 have maturity date falling 30 years from the date of issue on 3 January 2011.

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 2013 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$44,219,000 for year ended 31 December 2013 and its current liabilities exceeded current assets by HK$104,975,000 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.

The aforesaid "note 3(b) to the consolidated financial statements" in the extract of the independent auditor's report is disclosed in note 1(b) to this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

During the year under review, the Group recorded the turnover from the sales of food and beverages business of approximately HK$36,687,000 (2012: HK$61,951,000), a decrease of 41% 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 in July 2012.

The Group recorded a loss for the year attributable to the owners of the Company of approximately HK$44,219,000 compared to a loss of approximately HK$36,345,000 to the corresponding period in 2012. Loss per share attributable to the owners of the Company was 0.56 HK cents (2012: 0.46 HK cents).

Business Review

Exploration and Production Segment

The Group has successfully completed the Acquisition of Totalbuild Investments Group in previous years 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 managements have devoted much of its resources during the period in exploration and research studies.

The development period of any oil/gas field will start from the date of the completion of the 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. However, there was delay in finalizing the ODP documentation and the preparation of formal reserve report. The production period should start immediately after obtaining relevant government approval on ODP.

During the year, the Group has been carrying out exploration and pilot-production 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-production with CNPC at the site, 314,830,000 (2012: 266,290,000) cubic meters of natural gas was being extracted in the year 2013. The information obtained from research and pilot-production will form part of the information to be applied in the ODP. The natural gas so produced during the pilot-production has been sold to the local customers by CNPC near the site area.

As at 31 December 2013, the North Kashi Block oil/gas field has approximately estimated contingent resources of 47.4 (2012: 47.4) thousand barrels ("**Mbbl**") of oil and 11,802 (2012: 11,956) million cubic metres ("**MMm^3**") of natural gas (based on Group's 49% net entitlement interests in the Petroleum Contract). These contingent resources are quantities of oil and gas estimated, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. The risks associated with these contingent resources included, (i) no definitive 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, exploration and development cost of HK$98,584,000 were incurred. No revenue was recognize as the Group is still negotiating with CNPC regarding the price term in the GSA. The segment loss before income tax was approximately HK$19,696,000 (2012: HK$26,332,000). In view of the delay in finalizing the GSA, CNPC and the Group has agreed in February 2014 a pre-distribution scheme for the gas revenue from CNPC. Under the scheme, provisional gas price was fixed and the Group would receive gas revenue with reference to the provisional gas price. The provisional gas price will be adjusted when GSA was being finalized in future.

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	
	2013	2012
	HK$'000	*HK$'000*
Net sales to customers	**–**	–
Other income	**59**	156
Operating expenses	**(19,120)**	(25,658)
Depreciation	**(635)**	(830)
Result of operations before income tax	**(19,696)**	(26,332)

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

	For the year ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Exploration cost incurred during the year	**98,584**	229
	98,584	229

Information on oil/gas field and gross contingent resources

Under the Petroleum Contract, the exploration period covers 6 years commencing from 1 June 2009. As at 31 December 2013, the Group has 5 exploration wells. During the year under review, the major exploration activities included around 270 km^2 2D seismic data being acquired and certain pilot-productions were being carried out. The related exploration costs of approximately HK$98,584,000 were recognized in the cost of exploration and evaluation assets and 314,830,000 cubic meters natural gas was extracted through the pilot-production. No development and production activity was carried out under the Petroleum Contract, the pilot-production is not regarded as production activities as the Petroleum Contract is still in its exploration stage and ODP is yet to approve.

The reserve evaluation was conducted in accordance with Petroleum Resources Management system, an internationally recognized 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 are no any material change of assumption as compared with previous disclosed in the Competent Person's Report.

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

	Oil	**Natural gas**
	(Mbbl)	*(MMm^3)*
At 31 December 2012	47.4	11,956
Pilot-production activity during the year	–	(154)
At 31 December 2013	47.4	11,802

Sales of Food and Beverages Business

For the year ended 31 December 2013, the Group recorded a turnover from the sales of food and beverages business of approximately HK$36,687,000 (2012: HK$61,951,000), a decrease of 41% as compared to the last year. The decrease in turnover was due to the disposal of a Chinese restaurant in July 2012. The segment loss before income tax was approximately HK$306,000 (2012: profit of 7,404,000). The sales of foods and beverages business has been facing the persistent increase in raw materials and labour costs, the management will continue to keep track of the economic environment and imply tight costs control to it.

Financial Review

Liquidity, Financial Resources and Capital Structure

As at 31 December 2013, the Group had no outstanding interest-bearing borrowings (2012: Nil). The cash and cash equivalents of the Group were approximately HK$317,452,000 (2012: HK$316,354,000). The Group's current ratio (current assets to current liabilities) was approximately 0.8 (2012: 1.0). The ratio of total liabilities to total assets of the Group was approximately 17.1% (2012: 14.4%).

As at 31 December 2013, 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 2013 and 2012.

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$167,291,000 as at 31 December 2013 (2012: HK$261,475,000).

Litigation

In January 2014, two independent parties (the "**Plaintiffs**") undertook a legal action against three parties. These three parties are referred to as the "First Defendant", "Second Defendant" and the "Third Defendant" (collectively referred to as the "**Defendants**"). The First Defendant and Second Defendant is the Company's substantial shareholders and the Company is the Third Defendant.

Based on the statement of claims, the Plaintiffs alleged that the First Defendant and Second Defendant has agreed to transfer a total sum of HK$106,820,000 convertible notes ("**CN in dispute**") of the Company to them. The Plaintiffs alleged that they are the legal owners of the CN in dispute but the Company fail to recognize the transfer and fail to issue shares with their conversion instruction. The Plaintiffs seeks for a total damages of HK$106,820,000 and interests and related costs.

The Third Defendant filed defense on 12 March 2014 where the Third Defendant denied the claim made by the Plaintiffs. The management of the Company assessed that the litigation would have no material impact to the financial position of the Company and the liability to the Company is remote.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2013 and 2012.

Employee Information

As at 31 December 2013, the Group had a total workforce of 40 (2012: 46). The Group remunerates its employees based on their work performance, working experiences, professional qualifications and the prevailing market practice.

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 THE COMPANY'S LISTED SECURITIES

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 2013.

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provision of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 of the Listing Rules, except for the following deviations:

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. The division of responsibilities between the chairman and CEO should be 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. Up to the date of this results announcement, the chairman of the Board is vacated and Mr. Zhao Guoqiang is the CEO.

E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting ("**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.

A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. 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 at least once every three years in accordance with the Company's articles of association.

A.6.7 of the CG Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Sun Xiaoli and Mr. Wang Yongguang, the independent non-executive directors, were unable to attend the general meeting of the Company held on 25 June 2013 as they were out of town for other businesses.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Having made specific enquiry of all directors, they have confirmed that they have complied with the required standard set out in the Model Code through the year.

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 2013 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 2013 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.

PUBLICATION OF ANNUAL RESULTS AND 2013 ANNUAL REPORT

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnenergy.com.hk). The 2013 annual report of the Company for the year ended 31 December 2013 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 Officer & Executive Director

Hong Kong, 26 March 2014

As at the date of this announcement, the Board comprises Mr. Zhao Guoqiang, Mr. Chui Kwong Kau, 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.