

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I present to you the Group's annual report for the year ended 31 December 2006.

RESULTS

The Group's turnover for the year under review was HK\$104,864,000 (2005: HK\$76,692,000), representing an increase of 36.7%. Such increase of turnover was mainly due to the contribution from the newly acquired natural gas operating subsidiaries in Chongqing amounted to HK\$27,416,000 and was 26.1% of the Group's 2006 turnover. The revenues generated by the sales of electronic components increased by 32.4% from HK\$58,368,000 in 2005 to HK\$77,261,000 in 2006, representing 73.7% of the Group's turnover.

The loss after taxation for the year was HK\$28,208,000 (2005: HK\$33,537,000), representing a decrease of 15.9%. The profit after tax for the natural gas business since acquired in August 2006 was HK\$11,389,000 and the profit after tax for the sales of electronic components was HK\$611,000 for 2006 (loss of HK\$10,567,000 in 2005). The administrative cost increased 77.8% from HK\$28,397,000 in 2005 to HK\$50,479,000 in 2006, because of the inclusion of operating expenses of approximately HK\$3,309,000 for the natural gas business and the staff cost of HK\$12,357,000 in respect of granting of share options.

BUSINESS REVIEW

Natural Gas Business

The Group is principally engaged in property investment and technology-related business in the previous year. In view of the huge potential of energy-related business in Mainland China, the Directors have decided to diversify the Group's business into sale and distribution of piped natural gas business.

In August 2006, Marvel Time Holdings Limited ("MTHL"), a wholly owned subsidiary of the Company, completed the acquisition of the entire issued share capital of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") from Mr. Tan Chuanrong ("Mr. Tan") at a consideration of HK\$250 million, of which HK\$35 million was paid in cash, HK\$38,125,000 was satisfied by the allotment and issue of 152,500,000 shares of HK\$0.25 each and the remaining HK\$176,875,000 was satisfied by MTHL issuing seven promissory notes to Mr. Tan.

Sanxia Gas indirectly owned 100% of Chongqing Yunyang Natural Gas Company Limited ("First Yunyang"), Yunyang Three Gorges Compressed Natural Gas Company Limited ("Second Yunyang"), Fengjie Three Gorges Wind Natural Gas Company Limited ("Fengjie Gas") and Wushan Three Gorges Wind Natural Gas Company Limited ("Wushan Gas"). The principal activities of these subsidiaries are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengjie and Wushan.

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For the five month from August to December 2006, the turnover and profit of Sanxia Gas was HK\$27,416,000 and HK\$15,432,000. The revenue of Sanxia Gas mainly comprised of gas connection fee of HK\$15,969,000 and sales of natural gas supply charges of HK\$11,411,000. As at 31 December 2006, the Sanxia Gas had more than 43,000 customers with details as follows:

No. of customers	First Yunyang	Fengie Gas	Wushan Gas	Total
As at 31 December 2005	23,119	7,051	3,935	34,105
As at 31 December 2006	26,803	10,907	5,818	43,528
% growth	15.9%	54.7%	47.9%	27.6%

Second Yunyang, a natural gas filling station for motor vehicles, start operating in 2006 with 525,000 times of motor vehicles.

Technology-related Business

Strong Way International Limited ("SWIL"), the Group's 60% equity interest subsidiary, is principally engaged in design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the South East Asia Region. During the year, SWIL continuously enlarged its sales network in Mainland China through an established sales agent in Guangzhou which has already built up good business relationship with a number of household appliances manufacturers. The turnover from sales of electronic components amounted to HK\$77,261,000 for the year 2006 with a substantial increase of 32.4% comparing to HK\$58,368,000 in 2005. The segment results was HK\$611,000 at a profit for 2006 (2005: loss of HK\$10,567,000).

FINANCIAL REVIEW

As at 31 December 2006, the Group had current assets of HK\$95,972,000 (2005: HK\$17,586,000) and current liabilities of HK\$94,250,000 (2005: HK\$42,855,000) and cash and bank balances of HK\$20,339,000 (2005: HK\$3,976,000).

To minimize exposure to exchange fluctuation, most of the Group's cash reserves generated or raised in Hong Kong has placed in Hong Kong dollar short-term deposits with major banks in Hong Kong. The Board believes that substantial portion of the Group's operating income will be denominated in Renminbi in coming years, which will be sufficient to repay the Renminbi borrowings by the Sanxia Gas group and the Group will benefit from the appreciation of Renminbi expected in the foreseeable future.

By an ordinary resolution passed by the shareholders on 6 September 2006, the authorised share capital of the Company was increased from HK\$250,000,000 to HK\$1,000,000,000 by the creation of 3,000,000,000 new shares of HK\$0.25 each.

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On 19 May 2006 and 14 July 2006, the Company allotted and issued 120,000,000 and 146,000,000 new shares of HK\$0.25 each at the issue price of HK\$0.25 and HK\$0.45 per share, respectively, for cash. Net proceeds from the placing have been applied as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas and part as general working capital.

On 7 August 2006, the Company allotted and issued 152,500,000 new shares of HK\$0.25 each as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas.

PROSPECTS

The acquisition of Sanxia Gas allows the Group to diversify into a solid business, open up new array of steady income, diversify the Group's business of distribution of natural gas in Mainland China and the first step for the Group to enter into energy-related business. The Directors expect that Sanxia Gas will make positive contribution to the Group's results.

To cope with the change of emphasis in energy-related business of the Group, the Company has changed its name to New Smart Energy Group Limited by a special resolution passed on 6 September 2006, effective on 26 October 2006.

Subsequently to the year end, on 7 March 2007, the Company entered into a Deed of Settlement and a Subscription Agreement with Mr. Tan pursuant to which Mr. Tan agreed that the promissory notes and accrued interest amounting to HK\$178,356,328.12 will be settled by the issuance of convertible bonds to him by the Company. The circular has been dispatched to the shareholders on 13 April 2007 and an extraordinary general meeting proposing the transactions will be held on 30 April 2007. The Directors are of the opinion that the net asset value, the working capital and the gearing level of the Group would be improved by the issuance of the convertible bonds to settle the promissory notes.

In addition, the Group has successfully raised HK\$58,000,000 by top-up placement of 170,000,000 new shares and placement of 30,000,000 new shares at subscription price of HK\$0.3001 per share on 11 April 2007 for the possible investment in coal-bed methane business in future and for general working capital purpose. Together with the two placements in 2006, the Group has successfully raised HK\$150,000,000 in total since the Group has decided to diversify into energy-related business, which has received confidence from the market and investors.

As a whole, the Group will actively identify opportunities to invest in the energy-related business so as to bring in significant improved returns and contribute enhanced value to our shareholders.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2006.

HUMAN RESOURCES

As at 31 December 2006, the Group had 192 employees, of which 41 were in Hong Kong and 151 were in Mainland China. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. Staff benefits include medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

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ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

On behalf of the Board

Tong Nai Kan

Chairman and Managing Director

Hong Kong, 18 April 2007