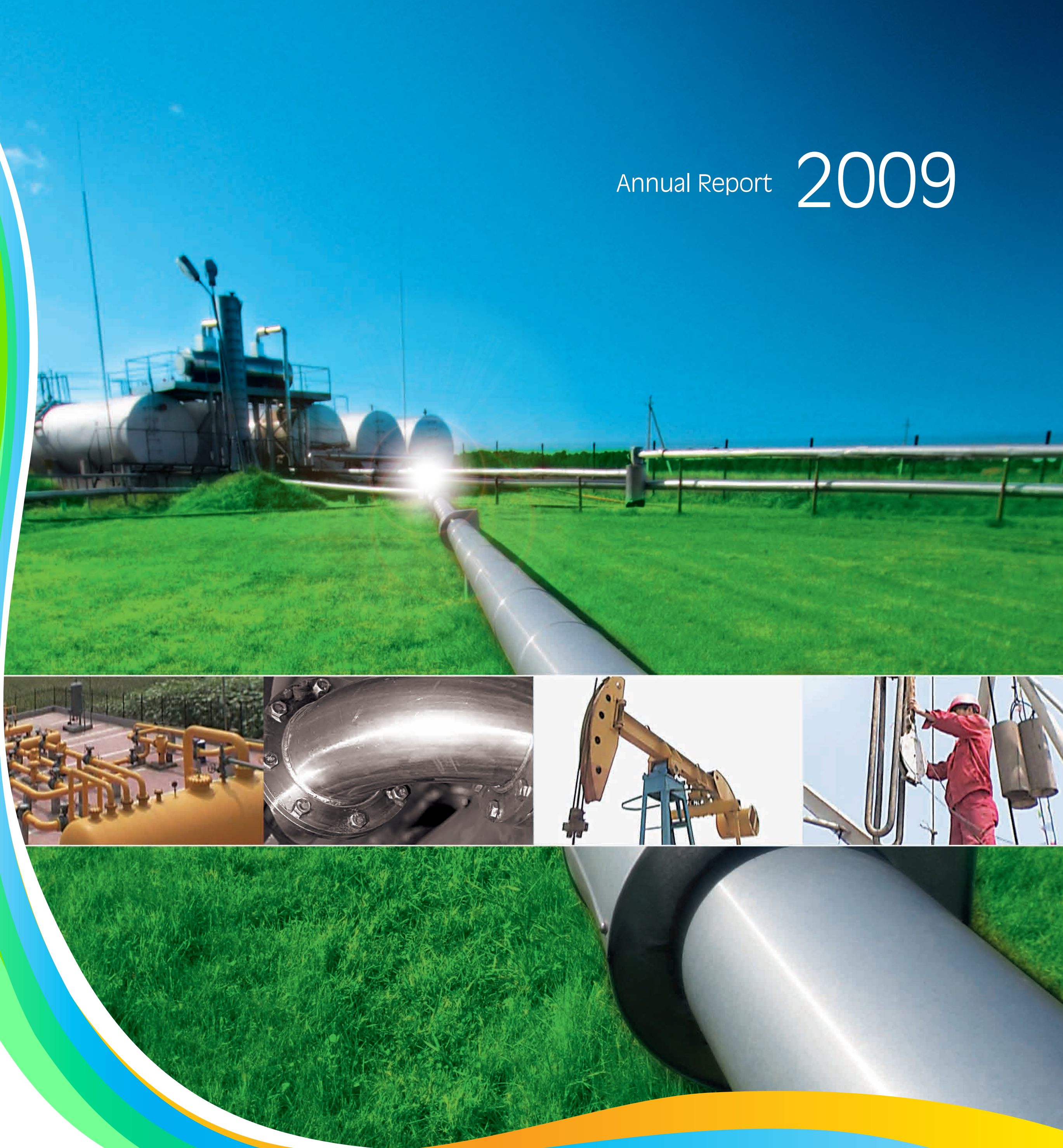
Annual Report 2009



New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tong Nai Kan *(Chairman)*
Lo Tai In
Pang Yuen Shan, Christina
Tam Tak Wah
Tsang Ching Man

Independent Non-Executive Directors

Chan Tsz Kit
Wang Li
Wong Kwok Hong Simon

AUDIT COMMITTEE

Chan Tsz Kit *(Chairman)*
Wang Li
Wong Kwok Hong Simon

REMUNERATION COMMITTEE

Wong Kwok Hong Simon *(Chairman)*
Chan Tsz Kit
Wang Li

COMPANY SECRETARY

Tsang Ching Man

PRINCIPAL BANKERS

The Bank of East Asia, Limited
DBS Bank (Hong Kong) Limited

SOLICITORS

D.S. Cheung & Co., Solicitors

AUDITOR

CCIF CPA Limited
34/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

REGISTERED OFFICE

Unit 3702B, 37/F.
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

SHARE REGISTRARS

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

COMPANY WEBSITE

www.newsmartgroup.com

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of New Smart Energy Group Limited (the "Company") will be held at the Boardroom of The Wharney Guang Dong Hotel Hong Kong at Basement 2, 57-73 Lockhart Road, Wanchai, Hong Kong on Tuesday, 15 June 2010 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditor for the year ended 31 December 2009.

2. To re-elect the retiring directors and to authorise the board of directors to fix their respective remuneration.

3. To re-appoint auditor and authorise the board of directors to fix the remuneration.

ORDINARY RESOLUTIONS

4. As special business, to consider and, if thought fit, to pass with or without modification the following resolutions as ordinary resolutions:

   (A) "**THAT**:

   (a) subject to paragraph (c), the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company (the "Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make or grant offers, agreements and options which might require the exercise of such power be generally and unconditionally approved;

   (b) the approval in paragraph (a) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power at any time during or after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a), otherwise than pursuant to:

   (i) a Rights Issue (as hereinafter defined);

   (ii) the exercise of rights of subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible into Shares;

   (iii) the exercise of options granted under any share option scheme adopted by the Company; and

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company (the "Articles of Association"),

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

"Rights Issue" means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Directors to holders of Shares or any class thereof on the register on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, Hong Kong or any territory outside Hong Kong).";

(B) "**THAT**:

(a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its securities, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), be generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the aggregate amount of warrants to subscribe for or purchase Shares (or other relevant class of securities) which may be repurchased pursuant to such approval shall not exceed 10% of the aggregate amount of the warrants (or other relevant class of securities) of the Company outstanding as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting."; and

(C) "**THAT** conditional upon the passing of resolutions 4(A) and 4(B) as set out in this notice convening the Meeting of which this resolution forms part, the general mandate granted to the Directors pursuant to resolution 4(A) as set out in this notice convening the Meeting of which this resolution forms part be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company repurchased by the Company under the authority granted pursuant to resolution 4(B) as set out in this notice convening the Meeting of which this resolution forms part, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution."

By Order of the Board
Tsang Ching Man
Company Secretary

Hong Kong, 13 May 2010

Notes:

1. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the office of the Company's share registrars, Tricor Standard Limited at the abovesaid address not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting thereof.

3. With reference to resolution 2 set out in this notice, Mr. Lo Tai In, Ms. Pang Yuen Shan, Christina, Mr. Tam Tak Wah, Ms. Tsang Ching Man, Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon are due to retire at the Meeting and, being eligible, offer themselves for re-election pursuant to Article 110 of the Company's Articles of Association. Neither Mr. Lo, Ms. Pang, Mr. Tam, Ms. Tsang, Mr. Chan, Mr. Wang and Mr. Wong has entered into any service contract with the Company. The details of the re-elected Directors are set out in a circular which will be sent to members together with the Company's 2009 Annual Report.

4. With reference to resolutions 4(A) to 4(C) set out in this notice, the Directors wish to state that they have no immediate plans to repurchase any existing Shares or to issue any new Shares pursuant to the relevant mandate. An explanatory statement containing further details regarding the general mandate to repurchase Shares as referred to in resolution 4(B) is set out in a circular which will be sent to members together with the Company's 2009 Annual Report.

5. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll.

Dear Shareholders,

On behalf of the Board of Directors ("the Board") of New Smart Energy Group Limited ("New Smart Energy" or "the Group"), I hereby present the Annual Report for the financial year ended 31 December 2009.

BUSINESS PREVIEW

Natural Gas Business

The Company, through its wholly-owned subsidiary, Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") which holds the ownership in the subsidiaries in PRC, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies"), runs the Natural Gas business in Chongqing Municipality, the principal business activities of which are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengie, and Wushan of Chongqing Municipality. This Natural Gas business offered the Group the stepping stone to energy-related businesses in Mainland China.

As disclosed in note 12, on 2 December 2009, the Directors resolved to discontinue the operation of the Chongqing Natural Gas Companies. The Chongqing Natural Gas Companies were therefore, reclassified as a discontinued operation and disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"). At 31 December 2009, the assets of the disposal group of HK$97,117,000, after impairment loss of HK$92,652,000 recognised immediately before reclassification as a disposal group held for sale, and liabilities of HK$45,741,000 associated with this disposal group were included in the consolidated statement of financial position.

In early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Directors considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies. Although the Company has adopted certain measures to protect the interest of the Natural Gas business, the unavailability of books and records of Chongqing Natural Gas Companies caused material audit scope limitation to the auditor to audit their financial statements and in consequence, the auditor does not express opinion on the consolidated financial statements of the Group for the year ended 31 December 2009.

Coalbed Methane ("CBM") Business

The Company, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("Can-Elite") runs the CBM business in Anhui Province, the principal business activities of which are coalbed methane exploration, development and production. Pursuant to the Production Sharing Contract entered into between China United Coalbed Methane Corporation Limited ("China United") and Can-Elite (the "PSC"), Can-Elite can exploit the coalbed methane resources in a total exploration area of approximately 356.80 square kilometers, which was subsequently expanded to 567.843 square kilometers, located in Sunan area, Anhui Province (the "Contract Area") in the PRC, for a term of 30 years from the date of commencement of the production of coalbed methane from any coalbed methane field proposed and announced by joint management committee comprising representatives from China United and Can-Elite (the "Joint Management Committee"). The profit sharing ratio between China United and Can-Elite is approximately 30:70.

The products of CBM and liquid hydrocarbons will be sold within Anhui Province for industrial use and to residents for household use. This CBM business in Anhui Province allows the Group to share a slice of this lucrative market of the clean energy sector in Mainland China. The exploration of the coalbed methane will take years to reach the normal production capacity of the existing resources. During the year, the progress was still in its early stage and a loss of about HK$506 million was recorded resulting from the excess of cost of operation over the revenue of about

HK$4 million, amortization of the PSC of about HK$125 million, change in fair value of convertible bond's embedded derivatives of about HK$304 million and imputed interests on promissory note and convertible bonds of about HK$73 million.

As at the report date, to meet the prior plan worked out by the Joint Management Committee, there are totally 12 wells at our sites, of which 7 wells are under production. With the progress in exploration and further investment in CBM, the returns will be captured in the coming years.

Electronic Components Business

The Company, through its non-wholly-owned subsidiary, Strong Way International Limited, operates the design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the South East Asian Region. The market environment remained extremely challenging in 2009 after the financial tsunami in late 2008. The Group recorded a drop in revenue of about HK$5.8 million from about HK$49 million in 2008 to about HK$43.2 million in 2009, representing a decline of 12% and a loss of about HK$2.1 million (2008: about HK$1 million).

PROSPECTS

The Group has adopted positive approach to streamline the businesses, especially the Natural Gas business. Although it will have a short term impact, the Board believes that with the development in CBM, the overall profitability will be achieved eventually.

The CBM is the gas which exists between the coalbed. The process of exploitation is environmental friendly. The cost of production, which involves mainly drilling of wells for both exploration and extraction of CBM within the Contract Area, is relatively low. The Chinese Government is supportive to the exploitation and usage of CBM. It has a number of policies to encourage the existing coal enterprises to exploit the resource of CBM. Exploitation of CBM is generally regarded as one of the premier developments in the five provinces of the Western China, which would speed up the economic development in these areas.

The Group has been optimizing its resources in developing the highly potential CBM business and will never hesitate to step out the Nature Gas business and direct its resources to the CBM business in Anhui Province. In 2010, the Group will further invest and develop its existing CBM business in Anhui Province in a board extent, through its close relationship with China United, and will take an active role to exploit this project including building up the piped network and carrying out marketing research study, with a view to launch its products to commercial operation in the near future.

When the CBM business in Anhui Province expands its commercial operation, the Board envisages that the gas products will bring a steady income as well as a reasonable return on investment to the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to our shareholders for their support over the past year and to our staff for their contributions and diligence.

Tong Nai Kan
Chairman
Hong Kong, 2 May 2010

FINANCIAL REVIEW

The Group's turnover of continuing operations for the year was HK$45,576,000 (2008: HK$49,323,000), representing a decrease of 7.60%. Such decrease of turnover was mainly due to the decrease contribution from the sales of electronic components. The revenues generated by the sales of electronic components decreased by 11.88% from HK$49,034,000 in 2008 to HK$43,207,000 in 2009, representing 94.80% of the Group's turnover. The Coalbed Methane ("CBM") exploration and exploitation operating subsidiary ("CBM Operating Subsidiary") contributed HK$2,369,000 (2008: HK$289,000) to the Group in 2009, representing 5.20% of the Group's turnover. The Group's gross profit of continuing operations decreased by 13.23% to HK$6,124,000 from HK$7,058,000 in 2008.

The Group's loss from continuing operations for the year was HK$508,938,000 (2008: profit of HK$474,080,000). Substantial part of the Group's loss was mainly due to the accounting treatments of various items, such as the fair value change on convertible bonds' embedded derivatives amounted to HK$304,332,000 (2008: HK$21,983,000), of which representing 59.80% of the Group's loss, imputed interest on promissory note amounted to HK$52,290,000 (2008: HK$4,697,000), and convertible bonds amounted to HK$20,726,000 (2008: HK$2,322,000), amortization of the PSC in respect of CBM amounted to HK$124,674,000 (2008: HK$10,283,000), the deferred tax income amounted to HK$31,169,000 (2008: HK$2,571,000), gain on disposal of subsidiaries amounted to HK$3,092,000 (2008: nil) and discount on acquisition of subsidiaries amounted to nil (2008: HK$545,470,000). The aggregate net result of the abovementioned accounting loss for 2009 is HK$467,761,000 (2008: profit of HK$508,756,000).

For comparison purpose, the loss after tax from continuing operations for 2009 and 2008, if excluding those accounting loss and profit, was HK$41,177,000 and HK$34,676,000 respectively, an increase in loss of 18.75% which was mainly due to the increase of administrative expenses incurred by the CBM Operating Subsidiary which was acquired in late 2008.

The Board was of the opinion that the substantial loss incurred by the accounting loss mentioned above shall not have actual negative impact on the cashflow position of the Group.

The Group recorded a loss attributable to shareholders of approximately HK$580,695,000 (2008: profit of HK$310,439,000), and basic and diluted loss per share from continuing and discontinuing operations was approximately HK$13.19 cents (2008: earnings of HK$14.67 cents). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had current assets of HK$151,485,000 (2008: HK$71,256,000) and current liabilities of HK$155,692,000 (2008: HK$97,075,000) and cash and bank balances of HK$39,126,000 (2008: HK$38,857,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 97.30% (2008: 73.4%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 57.80% (2008: 75.03%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In 2009, convertible bonds with principal amount of HK$747,583,000 were converted into 1,200,000,000 new shares of the Company of HK$0.25 each and 1,790,332,000 new shares of the Company of HK$0.01 each (as reduced by the Capital Reduction). Moreover, a portion of the promissory note with a principal amount of HK$12,417,000 and carrying amount at amortised cost of HK$9,583,000 was used by the note holder to off-set the same amount due to the Company.

On 11 September 2009, the Company has successfully raised net proceeds of approximately of HK$67 million by placement of 670,000,000 new ordinary shares of HK$0.01 each at price of HK$0.103 per share, which were used for the general working capital and the investments identified by the Group.

On 13 November 2009, a total of 1,322,153,278 bonus warrants were issued by the Company during the year to the shareholders on the basis of one warrant for every five shares held on 9 November 2009, i.e. the date of the extraordinary general meeting. The holders of these bonus warrants are entitled to subscribe in cash for 1,322,153,278 new shares at an initial exercise price of HK$0.05 per share at any time during the period commencing from 13 November 2009 to 12 November 2010 (both dates inclusive). For the year 2009, the Group has successfully raised approximately HK$275,000 (2008: nil). At 31 December 2009, there were 1,316,664,865 units of bonus warrants outstanding.

On 13 January 2010, the Company completed the share placement of 1,300,000,000 new ordinary shares of HK$0.01 each at the placing price of HK$0.061 per share, with net proceeds of approximately of HK$76 million raised, were used for the partial redemption of the promissory note and the general working capital of the Group.

On 20 January 2010 and 27 April 2010, a portion of promissory note with aggregate value of HK$67,583,000, that is carried at amortised cost of HK$60,241,000 at 31 December 2009, was redeemed.

On 9 April 2010, convertible bonds with principal amount of HK$90,000,000, that are carried with embedded derivatives portion of HK$16,278,000 and liability portion of HK$85,586,000 at 31 December 2009, were converted into 391,304,347 new shares of the Company of HK$0.01 each at a conversion price of HK$0.23 per share.

Subsequent to 31 December 2009 and up to approval date for these financial statements, 138,844,448 new ordinary shares of HK$0.01 each were issued upon the exercise of 138,844,448 units of bonus warrants and net proceeds of approximately of HK$6,942,000 were raised for the general working capital of the Group.

The Directors believed that these measures have contributed to the significant improvement to the gearing ratio and liquidity of the Group during the year and after the reporting period end.

The Group will constantly review its financial resources and will consider various plans to enhance its financial capabilities. The Group believes that to broaden its shareholders base would provide a solid ground for the Group to grow.

COMMITMENTS

Details of the commitments of the Group are set out in note 34.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operated in Hong Kong and the PRC with most of the transactions settled in Hong Kong dollars, Renminbi and United States dollars; the existing currency peg of Hong Kong dollars with United States dollars will likely continue in the near future, the exposure to foreign exchange fluctuation is minimal.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

Save as disclosed in note 35, the Group had no other contingent liabilities as at 31 December 2009.

LITIGATION

(1) 雲陽縣天然氣開發辦公室 (Yunyang Province Natural Gas Exploration Office) (the "**Plaintiff**") lodged a petition (2009渝二民初字第25號) on 15 March 2009 in 重慶市第二中級人民法院 (Chongqing No. 2 Intermediate People's Court) (the "**Court**") against 重慶三峽（燃氣）集團有限公司 ("**Chongqing Three Gorges**") (the "**Lawsuit**"). Chongqing Three Gorges was owned by the former shareholder of 重慶市雲陽縣天然氣有限責任公司(Chongqing Yunyang Natural Gas Company Limited) and 雲陽縣三峽壓縮天然氣有限公司 (Yunyang Three Gorges Compressed Natural Gas Company Limited) (collectively the "**Two PRC Subsidiaries**"). The Two PRC Subsidiaries were at a later stage drawn as parties in the Lawsuit and had joined the court proceedings on 28 August 2009.

According to the report of the Company's PRC lawyer, upon the Plaintiff's application, the Lawsuit had been withdrawn in or about February 2010 and the Plaintiff should pay all court fees in connection with the Lawsuit. It was noted that the Plaintiff had instituted another lawsuit on or about 4 March 2010 (the "**New Lawsuit**"), in which the Plaintiff alleged that Chongqing Three Gorges had been in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges (the "**Contract**") by (i) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the Contract to the Two PRC Subsidiaries; and (ii) selling the shareholding interests of the Two PRC Subsidiaries to the Company in 2006 without the consent of the Plaintiff.

The Company has instructed its PRC lawyer to defend the New Lawsuit instituted against the Two PRC Subsidiaries. The hearing of the New Lawsuit was originally scheduled on 13 April 2010 but due to the illness of the Company's PRC lawyer, the PRC lawyer reported that the hearing subsequently deferred to a date yet to be determined.

The Company has been advised by its PRC lawyer that it has good grounds to resist the petition and there should be no financial impact regarding this litigation.

(2) There is a dispute between Mr. Tan Chuanrong ("Mr Tan"), the former beneficial owner of the Chongqing Natural Gas Companies, and Marvel Time Holdings Limited ("Marvel Time"), a wholly-owned subsidiary of the Company and immediate holding company of Sanxia Gas. In or about December 2009, Mr. Tan expressed his intention to exercise the first right to purchase (the "First Right to Purchase") the entire issued capital of Sanxia Gas at a consideration of RMB50 million (approximately HK$56,876,000) in writing, which is the same as that offered by an independent third party in a conditional sale and purchase agreement entered into between the said third party and Marvel Time on 2 December 2009 but subsequently terminated on 29 December 2009. Mr. Tan's First Right to Purchase was contained, amongst other terms and conditions, in the agreement dated 12 April 2006 (as supplemented by another agreement dated 27 April 2006) (collectively "2006 Original Agreement") relating to the Group's acquisition of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies, from Mr. Tan. The First Right to Purchase, which was irrevocable, would be valid for 7 years after the completion of the 2006 Original Agreement. Mr. Tan was a former director of the Company who was retired and ceased to be a director of the Company at its annual general meeting held on 10 June 2009. When Mr. Tan purported to exercise the First Right of Purchase in December 2009, Mr. Tan should be deemed to be a connected party of the Company under Rule 14A of the Listing Rules. Up to the date of this report, the Company and Mr. Tan have not yet reached an agreement on the conditions precedent relating to the sale of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies. On 19 April 2010, Mr. Tan served a writ of summons, together with an indorsement of claim, against the Company and Marvel Time for (i) specific performance of 2006 Original Agreement to effect the sale of the entire interest of Sanxia Gas to Mr. Tan; (ii) damages in lieu of or in addition to specific performance; (iii) interest and costs arising. The Directors have sought legal advice that the Group has a strong case in defending any legal actions to be taken by Mr. Tan to the effect that the sale of Sanxia Gas, if to take place, shall be subject to those conditions precedent in accordance with the requirements of the Listing Rules.

CHARGE ON ASSETS

The short-term bank deposits, amounted to HK$3,008,000, have been pledged as securities for banking facilities granted to the continuing operations of the Group for the year ended 31 December 2009.

BONUS WARRANTS

On 13 November 2009, the Company issued total of 1,322,153,278 bonus warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders ("Bonus Warrants") on 9 November 2009. The holders of Bonus Warrants are entitled at any time during the period commencing from 13 November 2009 to 12 November 2010 (both dates inclusive) for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). For the year ended 31 December 2009, 5,488,413 new ordinary shares of HK$0.01 each were issued upon the exercise of 5,488,413 units of Bonus Warrants. As at 31 December 2009, there were 1,316,664,865 units of Bonus Warrants outstanding.

CAPITAL REDUCTION

On 21 July 2009, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 6 April 2009, the Hong Kong Court of First Instance approved that the nominal value of every issued and unissued share of the Company was reduced from HK$0.25 to HK$0.01 each by cancelling capital paid up or credited as paid up to the extent of HK$0.24 upon each of the shares of the Company. The capital reduction was completed and became effective on 21 July 2009. The credit of HK$996,104,000 arising from the capital reduction was credited to the accumulated losses of the Company of HK$503,932,000 and a special capital reserve of HK$492,172,000.

SHARE OPTION SCHEME

The Group has adopted share option scheme whereby Directors and employees of the Group may be granted options to subscribe for new shares of the Company. There were no outstanding share option as at 31 December 2009 as all those options brought forward from 2008 were either lapsed or forfeited. There was no option granted during the year.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 39, the Group had no other event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had 49 employees, of which 35 were in Hong Kong and 14 were in Mainland China, excluding the discontinued operation and disposal group classified as held for sale. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2009.

EXECUTIVE DIRECTORS

Tong Nai Kan, aged 51, was appointed as a Director of the Company in March 1999 and was elected as chairman of the board of directors of the Company in May 2000. He also acted as the managing Director of the Company from March 1999 to November 2007 and from February 2008 to August 2008. Mr. Tong has extensive experience in investment in various businesses in Mainland China and has participated in energy-related businesses in recent few years. He was awarded as the 11th World Outstanding Chinese Award from the World Chinese Business Foundation and the Honorary Doctoral Degrees from the International American University.

Lo Tai In, aged 45, was appointed as an executive Director of the Company in August 2009. He started his career in August 1991 as a junior negotiator in a property consultant firm. From May 1993 to March 1995, Mr. Lo was mainly involved in securities and forex dealings. From April 1995 to September 1996, he was a senior accounting supervisor in TV Media International Limited, a company engaged in TV home shopping. From October 1996 to April 2003 and from May 2006 onwards, Mr. Lo held positions in various trading companies in Hong Kong.

Pang Yuen Shan, Christina, aged 37, was appointed as an independent non-executive Director of the Company in August 2009 and was re-designated as an executive Director of the Company on September 2009. She obtained a Bachelor of Laws with Honors (LL.B.) from City University of Hong Kong in 1995, a Master of Laws in International & Commercial Law (LL.M) from University of Sheffield, UK in 1996 and a Postgraduate Certificate in Laws (PCLL) from City University of Hong Kong in 1997 and is a member of The Law Society of Hong Kong. Ms. Pang has been a practising solicitor in Hong Kong since 1999 and had continued to practice in a Hong Kong law firm until April 2000. From April 2000 to September 2002, she was an inhouse lawyer of Young Champion Group. Ms. Pang is currently the inhouse legal counsel of Waldorf Group

Tam Tak Wah, aged 44, was appointed as an executive Director and the corporate development director of the Company in September 2009. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 20 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Siberian Mining Group Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited and was an independent non-executive director of Vertex Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange during the period from 8 November 2004 to 23 June 2009.

Tsang Ching Man, aged 30, was appointed as an executive Director of the Company in August 2009. She is currently the company secretary, the authorised representative and the chief financial officer of the Company. Ms. Tsang obtained a Bachelor of Business Administration (Hons) degree in Accountancy from City University of Hong Kong in 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Tsang started her career in July 2004 mainly involved in audit assignment in audit firms.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Tsz Kit, aged 34, was appointed as an independent non-executive Director of the Company in September 2009. He is also the chairman and a member of the Audit Committee, a member of the Remuneration Committee and the chairman and a member of the Nomination Committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has been a partner in a CPA firm Albert Wong & Co since 2007. Mr. Chan has 10 years working experience in public accounting and 5 years experience in providing professional services to listing companies in the United States.

Wang Li, aged 27, was appointed as an independent non-executive Director of the Company in September 2009. He is also a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics from Peking University in 2005 and a Master in Finance from the University of St Andrews, UK in 2008. He served as a research assistant of Skyone Securities Company Ltd. from February 2006 to August 2006. Mr. Wang is currently a trust manager of Citic Trust Co. Ltd..

Wong Kwok Hong Simon, aged 41, was appointed as an independent non-executive Director of the Company in September 2009. He is also the chairman and a member of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Wong obtained a Bachelor of Laws with Honors (LL.B.) from City University of Hong Kong in 1992, a Postgraduate Certificate in Laws (PCLL) from City University of Hong Kong in 1993 and a Master of Laws in Chinese and Comparative Law from City University of Hong Kong in 1995 and is a member of The Law Society of Hong Kong. Mr. Wong has been a practising solicitor in Hong Kong since 1995. He is currently the sole proprietor of Simon Wong & Co., a solicitor firm in Hong Kong.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board" or "Director(s)") of New Smart Energy Group Limited (the "Company") is pleased to present this Corporate Governance Report for the year ended 31 December 2009 (the "Year").

The Company recognises the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company.

During the year, the Company complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with an exception of code provisions A.2.1, A.4.1 and A.4.2, details of which will be explained below.

In order to protect and enhance the benefits of the shareholders, the Board and its executive management will continue to monitor the governance policies to ensure that such policies meet the general rules and standards.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the directors' securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the Year.

BOARD OF DIRECTORS RESPONSIBILITIES

The primary responsibilities of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Company and its subsidiaries (collectively the "Group"); to supervise the management of the business and affairs with the objective of enhancing the Company and its shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Company, implementation of the budgets and strategic plans and development of the organisation of the Company for implementing the Board's decision.

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2008 and the six months ended 30 June 2009 respectively.

Composition

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administration and management of the Group. The Board currently consists of five executive Directors and three independent non-executive Directors ("INEDs"):

Executive Directors:
Mr. Tong Nai Kan *(Chairman)*
Mr. Lo Tai In
Ms. Pang Yuen Shan, Christina
Mr. Tam Tak Wah
Ms. Tsang Ching Man

Independent non-executive Directors:
Mr. Chan Tsz Kit
Mr. Wang Li
Mr. Wong Kwok Hong Simon

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographical Details of Directors" in this annual report and that the INEDs are expressly identified in all the Company's publication such as announcement, circular or relevant corporate communications in which the names of Directors of the Company as disclosed.

Out of three INEDs, Mr. Chan Tsz Kit possesses appropriate professional accounting qualifications and related financial management expertise required under rule 3.10(2) of the Listing Rules. Each of the INEDs has made an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considered all INEDs are independent.

Save as Ms. Chow Sim Chu, Shirley, an executive Director who resigned during the Year, is the sister-in-law of Mr. Tong Nai Kan, there is no other financial, business, family or other material/relevant relationships between the Directors and the Company.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size as adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

Appointments, Re-election and Removal of Directors (Deviation from Code Provision A.4.2)

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "Articles"). The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment of directors and assessing the independence of INEDs.

In accordance with the Articles, Directors are subject to retirement by rotation at least once every three years and any new Directors appointed to fill casual vacancies or as an addition to the Board should be subject to election by shareholders at the next annual general meeting after their appointment.

According to the Articles, the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation, which constitutes a deviation from the code provision A.4.2. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.

Non-executive Directors (Deviation from Code Provision A.4.1)

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. None of the existing INEDs of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, more than one-third of the Directors (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Number of Meetings and Directors' Attendance

The Board held a total of seventeen Board meetings during the Year. The attendance record of each Director at the Board meetings is set out below:

Name of Directors	Attendance/ Number of Board Meetings	*Notes*
Mr. Tong Nai Kan	17/17	
Mr. Lo Tai In	11/11	1
Ms. Pang Yuen Shan, Christina	11/11	2
Mr. Tam Tak Wah	11/11	3
Ms. Tsang Ching Man	11/11	4
Mr. Chan Tsz Kit	7/8	5
Mr. Wang Li	3/8	5
Mr. Wong Kwok Hong Simon	3/8	5
Ms. Chow Sim Chu, Shirley	4/5	6
Mr. Tan Chuanrong	0/3	7
Mr. Wang Wengang	3/6	8
Mr. Ko Ming Tung, Edward	5/6	9
Mr. Chan Kin Sang	5/8	10
Mr. Lam Yat Fai	4/6	11
Mr. Liu Ngai Wing	5/8	12
Dr. Tang Tin Sek	3/3	13

Notes:

1. Mr. Lo Tai In was appointed as the Executive Director on 1 August 2009.

2. Ms. Pang Yuen Shan, Christina was appointed as the Independent Non-executive Director on 1 August 2009 and was re-designated as the Executive Director on 30 September 2009.

3. Mr. Tam Tak Wah was appointed as the Executive Director on 1 September 2009.

4. Ms. Tsang Ching Man was appointed as the Executive Director on 1 August 2009.

5. Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon were appointed as the Independent Non-executive Directors on 30 September 2009.

6. Ms. Chow Sim Chu, Shirley resigned as the Executive Director on 1 August 2009.

7. Mr. Tan Chuanrong retired as the Executive Director on 10 June 2009.

8. Mr. Wang Wengang resigned as the Executive Director on 1 September 2009.

9. Mr. Ko Ming Tung, Edward resigned as the Non-Executive Director on 1 September 2009.

10. Mr. Chan Kin Sang resigned as the Independent Non-executive Director on 30 September 2009.

11. Mr. Lam Yat Fai resigned as the Independent Non-executive Director on 31 July 2009.

12. Mr. Liu Ngai Wing resigned as the Independent Non-executive Director on 30 September 2009.

13. Dr. Tang Tin Sek retired as the Independent Non-executive Director on 10 June 2009.

Practices and Conduct of Meetings

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Articles allows Board meetings to be conducted by way of telephone or otherwise orally and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director has a conflict of interest.

All directors are given an opportunity to include matters in the agenda for regular board meetings.

During the Year, the Board minutes were kept and available for inspection by the Directors. Also, the Board minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all Directors for their comments and execution respectively within a reasonable time before/after the Board meetings.

In the said Board Meetings, sufficient notices for regular board meetings and notice in reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner before the appointed date of Board meetings and at least 3 days before the regular meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company.

Separate independent professional advice would be provided to Directors, upon reasonable request, to assist the relevant Director or Directors to discharge his/their duties.

Chairman and Chief Executive Officer (Deviation from Code Provision A.2.1)

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing.

As at 1 January 2009, Mr. Tong Nai Kan assumed the role of the chairman of the Company, while Mr. Wang Wengang assumed the role of CEO. Following the resignation of Mr. Wang Wengang as Executive Director and CEO on 1 September 2009, Mr. Tong Nai Kan assumed the roles of both the chairman and CEO of the Company with effect from 1 September 2009, which constitutes a deviation from the code provision A.2.1 during the period from 1 September to 31 December 2009.

Whilst the Company is looking for suitable replacement for the post of CEO, the Board believes that the vesting of the roles of chairman and CEO in the same person provides the Group with strong and consistent leadership during this transitional period.

BOARD COMMITTEE

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which describes the authority and duties of the respective Board committees. The terms of reference are available to shareholders for inspection at the registered office of the Company.

The current members of each Board committee are set out below:

Remuneration Committee

Mr. Wong Kwok Hong Simon *(Chairman)*
Mr. Chan Tsz Kit
Mr. Wang Li

Nomination Committee

Mr. Chan Tsz Kit *(Chairman)*
Mr. Wang Li
Mr. Wong Kwok Hong Simon

Audit Committee

Mr. Chan Tsz Kit *(Chairman)*
Mr. Wang Li
Mr. Wong Kwok Hong Simon

Remuneration Committee

The Remuneration Committee was established for the purposes of determining specific remuneration packages of all executive Directors and senior management; and reviewing and approving their performance-based remuneration and their compensation on termination.

The Remuneration Committee consults the chairman/CEO about their proposal relating to the remuneration of executive Directors. No Directors and executives can determine his/her own remuneration.

The Remuneration Committee held a total of three meetings during the Year. The attendance record is set out below:

Name of Directors	**Attendance/Number of Remuneration Committee Meetings**	*Notes*
Mr. Wong Kwok Hong Simon *(Chairman)*	N/A	1
Mr. Chan Tsz Kit	N/A	1
Mr. Wang Li	N/A	1
Mr. Lam Yat Fai	N/A	2
Mr. Liu Ngai Wing	3/3	3
Ms. Pang Yuen Shan, Christina	2/2	4
Dr. Tang Tin Sek	N/A	5

Notes:

1. Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon were appointed as members of the Committee on 30 September 2009.

2. Mr. Lam Yat Fai resigned as a member of the Committee on 31 July 2009.

3. Mr. Liu Ngai Wing resigned as a member of the Committee on 30 September 2009.

4. Ms. Pang Yuen Shan, Christina was appointed as a member of the Committee on 1 August 2009 and resigned as a member of the Committee on 30 September 2009.

5. Dr. Tang Tin Sek resigned as a member of the Committee on 10 June 2009.

The minutes of the Remuneration Committee meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Remuneration Committee meetings.

Nomination Committee

The Nomination Committee was established for the purposes of reviewing the composition of the Board, identifying suitable Board members, assessing independence of the INEDs and making recommendation on appointments and re-appointments.

The Nomination Committee is responsible for selection and approval of candidates for recommendation to the Board for appointment as Directors. In considering the nomination of Mr. Lo Tai In, Ms. Pang Yuen Shan, Christina, Mr. Tam Tak Wah and Ms. Tsang Ching Man as executive Directors during the Year, the Nomination Committee would take into account their qualifications, in particular any qualifications as required in the Listing Rules, ability, working experience, leadership and professional ethics. Nomination Committee would subsequently recommend such nomination to the Board for approval for appointment.

The Nomination Committee held a total of three meetings during the Year. The attendance record is set out below:

Name of Directors	Attendance/Number of Nomination Committee Meetings	*Notes*
Mr. Chan Tsz Kit *(Chairman)*	N/A	1
Mr. Wang Li	N/A	1
Mr. Wong Kwok Hong Simon	N/A	1
Mr. Lam Yat Fai	N/A	2
Mr. Liu Ngai Wing	3/3	3
Ms. Pang Yuen Shan, Christina	2/2	4
Dr. Tang Tin Sek	N/A	5

Notes:

1. Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon were appointed as members of the Committee on 30 September 2009.

2. Mr. Lam Yat Fai resigned as a member of the Committee on 31 July 2009.

3. Mr. Liu Ngai Wing resigned as a member of the Committee on 30 September 2009.

4. Ms. Pang Yuen Shan, Christina was appointed as a member of the Committee on 1 August 2009 and resigned as a member of the Committee on 30 September 2009.

5. Dr. Tang Tin Sek resigned as a member of the Committee on 10 June 2009.

The minutes of Nomination Committee meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Nomination Committee meetings.

Audit Committee

The Audit Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the audit of the Group.

The Audit Committee is responsible for reviewing the appointment of auditor on an annual basis including a review of the audit scope and approval of the audit fees; ensuring continuing auditor objectivity and to safeguard independence of the Company's auditor; meeting with the auditor to discuss issues arising from the interim review and final audit and any matters the auditor suggest to discuss; reviewing the effectiveness of the external audit and of internal controls and risk evaluation; reviewing the annual and interim report prior approval by the Board in accordance with the accounting policies and practices and relevant accounting standards, the Listing Rules and the legal requirements; serving as a focal point for communication between other Directors and the auditor in respect of the duties relating to financial and other reporting.

During the Year, the Audit Committee held two meetings for reviewing annual and interim reports respectively before submission to the Board; discussing all significant accounting issues as stated in the annual and interim reports, any changes in accounting policies and practices, major judgmental areas, significant adjustments, the going concern assumption, compliance with accounting standards, the stock exchange and legal requirements. The attendance record is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings	*Notes*
Mr. Chan Tsz Kit *(Chairman)*	N/A	1
Mr. Wang Li	N/A	1
Mr. Wong Kwok Hong Simon	N/A	1
Mr. Chan Kin Sang	2/2	2
Mr. Lam Yat Fai	1/1	3
Mr. Liu Ngai Wing	2/2	4
Ms. Pang Yuen Shan, Christina	1/1	5
Dr. Tang Tin Sek	1/1	6

Notes:

1. Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon were appointed as members of the Committee on 30 September 2009.

2. Mr. Chan Kin Sang resigned as a member of the Committee on 30 September 2009.

3. Mr. Lam Yat Fai resigned as a member of the Committee on 31 July 2009.

4. Mr. Liu Ngai Wing resigned as a member of the Committee on 30 September 2009.

5. Ms. Pang Yuen Shan, Christina was appointed as a member of the Committee on 1 August 2009 and resigned as a member of the Committee on 30 September 2009.

6. Dr. Tang Tin Sek resigned as a member of the Committee on 10 June 2009.

The minutes of Audit Committee meetings were kept and available for inspection by the committee members. Also, the minutes were recorded in sufficient detail the decisions reached and draft and final versions of the minutes were sent to all committee members for their comments and execution respectively within a reasonable time before/after the Audit Committee meetings.

The annual results of the Group for the Year have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

During the Year, the fees paid to the auditor of the Company, CCIF CPA Limited was HK$950,000 for the audit service and HK$125,000 for the non-audit services.

INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the internal control systems of the Group, including financial, operational and compliance controls and risk management functions.

The Board and the management has implemented a comprehensive program to review and improve the existing internal control systems of the Group and has from time to time reported the significant findings and areas of improvement to the Audit Committee. For the Year, the Board considers the key aspects of the internal control systems are sufficient and effective and is satisfied that there are adequate resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

COMMUNICATION WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of poll voting procedures and the rights of shareholders to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be posted on the websites of the Stock Exchange and the Company following the general meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as the chairman of the audit committee or in the absence of the chairman of such committee, another member of the committee or failing this, his duly appointed delegate, are available to answer questions at the general meetings.

To promote effective communication, the Company maintains websites at www.newsmartgroup.com, where information and updates on the Company's business developments and operations, financial information and other information are posted.

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 2 May 2010

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 18 to the financial statements.

An analysis of the performance of the Group for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out on page 38.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 15 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital of the Company are set out in note 25 to the financial statements.

Particulars of the bonus warrants during the year are set out in note 25(g) to the financial statements.

CONVERTIBLE BONDS

Details of movements in the convertible bonds are set out in note 29 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, significant events after the reporting period of the Group occurred and their details are set out in note 39 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report are:

Tong Nai Kan	
Lo Tai In	(appointed on 1 August 2009)
Pang Yuen Shan, Christina	(appointed on 1 August 2009)
Tam Tak Wah	(appointed on 1 September 2009)
Tsang Ching Man	(appointed on 1 August 2009)
Chan Tsz Kit*	(appointed on 30 September 2009)
Wang Li*	(appointed on 30 September 2009)
Wong Kwok Hong Simon*	(appointed on 30 September 2009)
Chow Sim Chu, Shirley	(resigned on 1 August 2009)
Tan Chuanrong	(retired on 10 June 2009)
Wang Wengang	(resigned on 1 September 2009)
Ko Ming Tung, Edward#	(resigned on 1 September 2009)
Chan Kin Sang*	(resigned on 30 September 2009)
Lam Yat Fai*	(resigned on 31 July 2009)
Liu Ngai Wing*	(resigned on 30 September 2009)
Tang Tin Sek*	(retired on 10 June 2009)

Non-executive Director

* *Independent Non-executive Directors*

In accordance with Article 110 of the Articles of Association of the Company, Mr. Lo Tai In, Ms. Pang Yuen Shan, Christina, Mr. Tam Tak Wah, Ms. Tsang Ching Man, Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The term of office for each Non-executive Director is the period up to his retirement by rotation in accordance with the Articles of Association of the Company.

All the Directors do not have service contracts with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT

There is no contract of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2009, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan	Corporate *(Note)*	60,000,000	0.91%

Note: These shares are beneficially owned by and registered in the name of Gold Blue Group Limited, which is 100% beneficially owned by Mr. Tong Nai Kan.

(B) Long positions in underlying shares of the Company – warrants

Name of Director	Nature of interest	Number of underlying shares comprised in the warrants	Percentage
Tong Nai Kan	Corporate *(Note)*	12,000,000	0.18%

Note: These underlying shares are beneficially owned by and registered in the name of Gold Blue Group Limited, which is 100% beneficially owned by Mr. Tong Nai Kan.

Save as disclosed above, as at 31 December 2009, none of the Directors and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2009, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
New Alexander Limited	Corporate	–	5,445,291,304	82.30%
Liu Kanwei *(Note)*	Corporate	550,332,000	110,066,400	9.98%
Joyous Wing Investments Limited (“Joyous Wing”)	Beneficial	550,332,000	110,066,400	9.98%

Note: Mr. Liu Kanwei is the beneficial owner of the entire issued share capital of Joyous Wing.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any listed securities of the Company during the year.

SHARE OPTIONS

Under the terms of the share option scheme of the Company (the “Scheme”) approved by the shareholders on 29 December 2004 (the ‘‘Adoption Date’’), the Directors may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company (the “Options”) subject to the terms and conditions stipulated in the Scheme. During the year, share options are granted to employees specified under the Scheme. A summary of the Scheme is set out below:

(1) Purpose

(a) To recognise and acknowledge the contributions which the eligible participants have made or may make to the Group.

(b) The Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

(i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

(2) Eligible participants

(a) any Director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and

(b) any discretionary trust who discretionary objects include any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity;

and for the purpose of the Scheme, the Option may be granted to any corporation wholly-owned by any person under (a) above.

(3) Total number of shares available for issue

Subject to the paragraph below, the total number of shares which may be issued upon exercise of all the Options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue (or the shares of the Subsidiary) as at Adoption Date, being 61,058,439 shares (the "Scheme Mandate Limit").

At the annual general meeting of the Company held on 24 May 2006, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 73,058,439 Shares, representing 10% of the issued share capital of the Company as at 24 May 2006.

At the annual general meeting of the Company held on 30 May 2007, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 127,881,439 Shares, representing 10% of the issued share capital of the Company as at 30 May 2007.

At the annual general meeting of the Company held on 10 June 2009, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 661,076,639 Shares, representing 10% of the issued share capital of the Company as at 10 June 2009.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes for the time being of the Company shall not, in aggregate, exceed such number of shares as equals 30% of the shares in issue from time to time.

As at the date of the annual report, there is no outstanding shares available for issue under the Scheme.

(4) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the Options granted to an eligible participant (including exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares in issue from time to time.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the shares must be taken up under the Option must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which the Option must be held before it can vest

The minimum period, if any, for which the Option must be held before it can vest shall be determined by the Board in its absolute discretion. The Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the Option

HK$1.00 is payable by the grantee to the Company on acceptance of the Option offer. An offer must be accepted within 30 days from the date of grant.

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

(i) the closing price of the shares on the date of grant;

(ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

(9) The remaining life of the Scheme

The life of the Scheme is 10 years commencing on the Adoption Date and will expire on 28 December 2014.

Details of the share options outstanding as at 31 December 2009 which have been granted under the Scheme are as follows:

Categories of participant	Date of grant	Exercise price *(HK$)*	Exercisable period	Number of share options: As at 1 January 2009	Granted	Exercised	Cancelled/ Lapsed	As at 31 December 2009	Closing price immediately before the date of grant *(HK$)*
Employees	27-Sep-05	0.2500	27 October 2005 to 26 September 2010	800,000	–	–	800,000	–	0.1090
Directors	8-Mar-06	0.2648	8 April 2006 to 7 March 2011	1,830,000	–	–	1,830,000	–	0.2440
Employees	1-Jun-06	0.2900	1 July 2006 to 31 May 2011	8,500,000	–	–	8,500,000	–	0.2850
Employees	1-Mar-07	0.2620	1 April 2007 to 29 February 2012	2,600,000	–	–	2,600,000	–	0.2550
				13,730,000	–	–	13,730,000	–	

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover of continuing operations during the year attributable to the Group's five largest customers was 77.62% of the Group's total turnover of continuing operation, of which 64.71% was made to the largest customer.

The aggregate purchase of continuing operations during the year attributable to the Group's five largest suppliers was 95.63% of the Group's total purchases of continuing operations, of which 81.46% was made from the largest supplier.

None of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's share capital has an interest in the suppliers or customers disclosed above.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received the annual confirmation of independence from each of the Independent Non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all Independent Non-executive Directors to be independent.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year except the deviations set out in the Corporate Governance Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

AUDITOR

The financial statements have been audited by CCIF CPA Limited.

On 25 June 2008, PricewaterhouseCoopers retired as auditor of the Company and did not offer themselves for reappointment at the annual general meeting held on that date. CCIF CPA Limited was appointed as the auditor of the Company at the adjourned annual general meeting held on 28 August 2008.

CCIF CPA Limited will retire in the forthcoming annual general meeting and, being eligible, offer themselves for reappointment. A resolution for the re-appointment of CCIF CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 2 May 2010

CCIF
CCIF CPA LIMITED
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF NEW SMART ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

We were engaged to audit the consolidated financial statements of New Smart Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 131, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 12 to the consolidated financial statements, the Company had resolved in December 2009 to discontinue the operation of natural gas supply in Chongqing, the Peoples' Republic of China (the "PRC") which are undertaken by Sanxia Gas (BVI) Investment Limited ("Sanxia Gas (BVI)") through its subsidiaries, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies") all established in the PRC. The directors of the Company have reclassified the Chongqing Natural Gas Companies as a disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"), as further detailed in note 12 to the consolidated financial statements. At 31 December 2009, the assets of the Chongqing Natural Gas Companies classified as a disposal group held for sale of HK$97,117,000, after impairment loss of HK$92,652,000 recognised immediately before reclassification as a disposal group held for sale, and liabilities of HK$45,741,000 associated with this disposal group held for sale were included in the consolidated statement of financial position. The directors of the Company considered that the assets less liabilities of the Chongqing Natural Gas Companies classified as a disposal group held for sale have been written down to an estimated recoverable value approximate to the fair value of the disposal group less cost to sell. The net loss for the year from the discontinued operation of the Chongqing Natural Gas Companies amounted to HK$71,757,000 and was included in the consolidated income statement for the year.

The Company reported that in early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Company has taken a series of urgent measures, including but not limited to reporting the case to the Ministry of Public Security in Chongqing, the PRC, with a view to securing the Company's legitimate interests in the Chongqing Natural Gas Companies. In early February 2010, temporary supervisory committees for the Chongqing Natural Gas Companies were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, the PRC ("Supervisory Committees") in order to, among other things, supervise the operation of the Chongqing Natural Gas Companies and secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies are subject to the Supervisory Committees' approval, which include the management of funds, expenses, personnel changes and purchase and management of materials. The Supervisory Committees are also empowered to investigate any other material issues in connection with the Chongqing Natural Gas Companies. The directors of the Company considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies.

The directors of the Company have prepared those financial information concerning the Chongqing Natural Gas Companies classified a discontinued operation and disposal group held for sale in accordance with HKFRS 5, as further disclosed in note 12 to the consolidated financial statements, based on the PRC statutory financial statements of each of the Chongqing Natural Gas Companies for the year ended 31 December 2009, prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC, which were audited by the certified public accountants registered in the PRC. However, due to the current circumstances relating to the Chongqing Natural Gas Companies mentioned in the preceding paragraph, the directors of the Company have been unable to provide us with the complete set of the accounting books and records of each of the Chongqing Natural Gas Companies. We have therefore been unable to carry out audit procedures to obtain sufficient reliable audit evidence to satisfy ourselves as to whether the assets and liabilities, contingencies, charges of assets and commitments of Chongqing Natural Gas Companies classified as a disposal group held for sale as at 31 December 2009 and of their losses and cash flows for the year then ended, as set out in note 12 to the consolidated financial statements, are free from material misstatements.

Any adjustments to those financial information concerning the Chongqing Natural Gas Companies as a discontinued operation and disposal group held for sale, as further detailed in note 12 to the consolidated financial statements, may have significant consequential effects on the net assets of the Group as at 31 December 2009 and the Group's loss and cash flows and related disclosures for the year then ended.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to the Chongqing Natural Gas Companies, classified as a discontinued operation and a disposal group held for sale, in the PRC:

– we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

– we were unable to determine whether proper books of account had been kept.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 2 May 2010

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 HK$'000	2008 HK$'000 (restated)
Continuing operations			
Turnover	5	**45,576**	49,323
Cost of sales		**(39,452)**	(42,265)
Gross profit		**6,124**	7,058
Other income	7	**381**	403
Amortisation of production sharing contract	17	**(124,674)**	(10,283)
Fair value change of convertible bonds' embedded derivatives	29	**(304,332)**	(21,983)
Discount on acquisition of subsidiaries	36	**–**	545,470
Administrative expenses		**(47,523)**	(42,426)
Gain on disposal of subsidiaries	37	**3,092**	–
Finance income		**–**	566
Finance costs	8(a)	**(73,175)**	(7,296)
(Loss)/profit before taxation	8	**(540,107)**	471,509
Income tax	11(a)	**31,169**	2,571
(Loss)/profit for the year from continuing operations		**(508,938)**	474,080
Discontinued operation			
Loss for the year from discontinued operation, net	12(a)	**(71,757)**	(163,641)
(Loss)/profit for the year		**(580,695)**	310,439
Attributable to owners of the Company		**(580,695)**	310,439
(Loss)/earnings per share (expressed in HK cents)	14		
From continuing and discontinued operations			
Basic and diluted		**(13.19)**	14.67
From continuing operations			
Basic and diluted		**(11.56)**	22.41
From discontinued operation			
Basic and diluted		**(1.63)**	(7.74)

	Note	**2009** ***HK$'000***	2008 *HK$'000*
(Loss)/profit for the year		**(580,695)**	310,439
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries and operations		**17,709**	8,169
Total comprehensive (loss)/income for the year		**(562,986)**	318,608
Attributable to owners of the Company		**(562,986)**	318,608

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	15	**22,630**	180,019
Prepaid lease payments	16	**–**	2,322
Intangible assets	17	**3,618,284**	3,726,902
Goodwill	12(g)	**–**	–
Interest in an associate, net	19	**–**	–
Available-for-sale financial assets	20	**2,641**	2,771
		3,643,555	3,912,014
Current assets			
Inventories	21	**–**	2,898
Prepaid lease payments	16	**–**	202
Trade and other receivables	22	**15,242**	16,882
Amounts due from related parties	23	**–**	12,417
Cash and bank balances	24	**39,126**	38,857
		54,368	71,256
Assets of a discontinued operation and disposal group classified as held for sale	12(c)	**97,117**	–
		151,485	71,256
Total assets		**3,795,040**	3,983,270
Total equity and liabilities		**3,795,040**	3,983,270
Net current liabilities		**(4,207)**	(25,819)
Total assets less current liabilities		**3,639,348**	3,886,195
Net assets		**1,174,642**	738,228
Capital and reserves			
Share capital	25	**66,163**	737,609
Reserves	26	**1,108,479**	619
Total equity		**1,174,642**	738,228

	Note	**2009** *HK$'000*	2008 *HK$'000*
Non-current liabilities			
Bank loans	28	**–**	5,653
Other borrowings, unsecured	28	**–**	21,725
Finance lease obligations	28	**–**	771
Promissory note, unsecured	30	**142,620**	160,154
Convertible bonds-liability portion, unsecured	29	**1,190,990**	1,877,351
Convertible bonds-embedded derivatives, unsecured	29	**226,525**	146,953
Deferred tax liabilities	31	**904,571**	935,360
		2,464,706	3,147,967
Current liabilities			
Bank loans	28	**–**	20,351
Other borrowings, unsecured	28	**20,618**	23,799
Finance lease obligations	28	**–**	187
Promissory note, unsecured	30	**60,241**	–
Trade and other payables	32	**29,092**	49,847
Amounts due to related parties	33	**–**	1,779
Current taxation	11(c)	**–**	1,112
		109,951	97,075
Liabilities of a discontinued operation and disposal group classified as held for sale	12(c)	**45,741**	–
		155,692	97,075
Total liabilities		**2,620,398**	3,245,042

Approved and authorised for issue by the board of directors on 2 May 2010.

Tong Nai Kan
Director

Tsang Ching Man
Director

	Note	**2009**	2008
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	15	**988**	1,476
Interests in subsidiaries, net	18	**2,253,999**	2,253,999
Interest in an associate, net	19	**–**	–
Available-for-sale financial assets	20	**2,641**	2,771
		2,257,628	2,258,246
Current assets			
Amounts due from subsidiaries, net	18	**61,076**	207,067
Other receivables	22	**1,906**	7,345
Cash and bank balances	24	**32,776**	770
		95,758	215,182
Total assets		**2,353,386**	2,473,428
Total equity and liabilities		**2,353,386**	2,473,428
Net current (liabilities)/assets		**(19,996)**	156,193
Total assets less current liabilities		**2,237,632**	2,414,439
Net assets		**677,497**	229,981
Capital and reserves			
Share capital	25	**66,163**	737,609
Reserves	26	**611,334**	(507,628)
Total equity		**677,497**	229,981

	Note	**2009** *HK$'000*	2008 *HK$'000*
Non-current liabilities			
Promissory note, unsecured	30	**142,620**	160,154
Convertible bonds – liabilities portion, unsecured	29	**1,190,990**	1,877,351
Convertible bonds – embedded derivatives, unsecured	29	**226,525**	146,953
		1,560,135	2,184,458
Current liabilities			
Amounts due to subsidiaries	18	**53,338**	32,695
Other payables	32	**2,175**	4,895
Promissory note	30	**60,241**	–
Other borrowings, unsecured	28	**–**	20,000
Amounts due to related parties	33	**–**	1,399
		115,754	58,989
Total liabilities		**1,675,889**	2,243,447

Approved and authorised for issue by the board of directors on 2 May 2010.

Tong Nai Kan
Director

Tsang Ching Man
Director

	Note	Share capital HK$'000	Other reserves (note 26) HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008		475,109	266,253	(416,242)	325,120
Issue of new shares, net of expenses	25(c)	62,500	–	–	62,500
Acquisition of subsidiaries	25(d)	200,000	–	(168,000)	32,000
Share options forfeited	27(a)	–	(29,477)	29,477	–
Transfer to statutory reserves		–	518	(518)	–
Profit for the year		–	–	310,439	310,439
Exchange differences on translation of subsidiaries and operations outside Hong Kong		–	8,169	–	8,169
Total comprehensive income for the year		–	8,169	310,439	318,608
At 31 December 2008 and 1 January 2009		737,609	245,463	(244,844)	738,228
Capital reduction	25(b)	(996,104)	492,172	503,932	–
Issue of new shares					
– upon conversion of convertible bonds	25(e)	317,903	613,944	–	931,847
– upon placing of shares	25(f)	6,700	60,578	–	67,278
– upon exercise of bonus warrants	25(g)	55	220	–	275
Share options forfeited	27(a)	–	(1,771)	1,771	–
Transfer to statutory reserve		–	1,692	(1,692)	–
Loss for the year		–	–	(580,695)	(580,695)
Exchange differences on translation of subsidiaries and operations outside Hong Kong		–	17,709	–	17,709
Total comprehensive loss for the year		–	17,709	(580,695)	(562,986)
At 31 December 2009		66,163	1,430,007	(321,528)	1,174,642

	2009	2008
	HK$'000	*HK$'000*
(Loss)/Profit before taxation:		
– Continuing operations	**(540,107)**	471,509
– Discontinued operation	**(70,039)**	(162,850)
	(610,146)	308,659
Adjustments:		
Interest income	**(657)**	(745)
Finance costs	**75,910**	9,822
Fair value change of convertible bonds' embedded derivatives	**304,332**	21,983
Depreciation	**14,162**	9,586
Amortisation of prepaid lease payments	**202**	200
Amortisation of rights to use gas pipelines	**566**	560
Amortisation of production sharing contract	**124,674**	10,283
Gain on disposal of subsidiaries	**(3,092)**	–
Discount on acquisition of subsidiaries	**–**	(545,470)
Impairment loss on goodwill	**–**	167,279
Impairment loss on property, plant and equipment	**87,006**	–
Impairment loss on right to use gas pipelines	**5,646**	–
Write-down of inventories	**62**	3
Impairment of trade receivables	**130**	35
Loss on disposal of property, plant and equipment	**5,064**	1,090
Impairment on other receivable from former related parties	**2,853**	–
Operating profit/(loss) before working capital changes	**6,712**	(16,715)
Decrease/(increase) in inventories	**1,774**	(660)
Increase in net amounts due from related parties	**–**	(375)
Decrease in amounts due to related companies	**(1,779)**	–
(Increase)/decrease in trade and other receivables	**(16,835)**	33,764
(Decrease)/increase in trade and other payables	**(344)**	3,692
Cash (used in)/generated from operations	**(10,472)**	19,706
Interest received	**657**	745
Overseas profits tax refunded/(paid)	**989**	(877)
Net cash (outflow)/inflow from operating activities	**(8,826)**	19,574

	2009	2008
	HK$'000	*HK$'000*
Investing activities		
Acquisition of subsidiaries	**–**	(67,155)
Disposal of subsidiaries	**(136)**	–
Purchase of property, plant and equipment	**(25,709)**	(23,303)
Proceeds from disposal of property, plant and equipment	**9,815**	905
Proceeds from disposal of available-for-sale financial assets	**130**	–
Net cash outflow from investing activities	**(15,900)**	(89,553)
Financing activities		
Proceeds from issue of new shares	**67,278**	62,500
Proceeds from exercise of bonus warrants	**275**	–
Proceeds from borrowings	**569**	20,000
Interest paid	**(2,816)**	(2,788)
Interest element of finance lease payments	**(78)**	(16)
Repayment of bank loans	**(9,505)**	(11,654)
Repayment of other loans	**(20,000)**	–
Repayment of finance lease obligations	**(331)**	(112)
Net cash inflow from financing activities	**35,392**	67,930
Net increase/(decrease) in cash and cash equivalents	**10,666**	(2,049)
Cash and cash equivalents at beginning of year	**38,857**	41,511
Effect of foreign exchange rate changes	**(414)**	(605)
Cash and cash equivalents at end of year represented by cash and bank balances	**49,109**	38,857

Material non-cash transactions:

(a) During the year, a portion of the promissory note carried at amortised cost of HK$9,583,000 was applied to set off the same amount due by the promissory note holder.

(b) As disclosed in note 25(e) and note 29, during the year, convertible bonds with aggregate principal value of HK$747,583,000 and carrying amounts with fair value of embedded derivatives of HK$707,087,000 and liability component stated at amortised cost of HK$224,760,000, were converted into 2,990,332,000 ordinary shares of the Company.

1. GENERAL INFORMATION

New Smart Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Unit 3702B, 37/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The principal activities of the Company and its subsidiaries (together referred to as the "Group") are coalbed methane gas exploration and exploitation in The Peoples Republic of China ("PRC") and sale of electronic components. During the year, as further detailed in notes 6 and 12, the Company discontinued and classified business segment of natural gas supply for residential, commercial and industrial consumption as a disposal group held for sale.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") while the functional currency of the subsidiaries of the Company incorporated in the People Republic of China ("PRC") is Renminbi ("RMB") which is the functional currency of the Group. As the Company is listed in Hong Kong, the directors of the Company consider that it is more appropriate to present the consolidated financial statements in HK$, where most of its public investors are located in Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The financial statements have been prepared under the historical cost convention except for the embedded derivatives portion of convertible bonds which are stated at fair value. Non-current assets and disposal group held for sale are stated at lower of carrying amount and fair value less costs to sell (see note (2)(z)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

In preparing the financial statements, the directors of the Company have carefully considered the future liquidity and commitments of the Group as at 31 December 2009. The directors of the Company are of the opinion that the Group will be able to finance its future working capital and financing requirements after the considerations of:

(i) In January 2010, the Company raised net proceeds of HK$76 million by way of issue of 1,300 million new ordinary shares of HK$0.01 each at the price of HK$0.061 each, of which HK$67,583,000 has been subsequently applied to redeem the zero coupon promissory note with a principal value of HK$67,583,000 and a carrying value at amortised cost of HK$60,241,000 as at 31 December 2009;

(ii) In April 2010, the Company has entered into a supplemental agreement with the promissory note holder who has agreed to extend the original maturity of zero coupon promissory note with a principal value of HK$160,000,000 and a carrying value at amortised cost of HK$142,620,000 as at 31 December 2009 from 26 May 2010 to 26 May 2011;

(iii) Subsequent to 31 December 2009 and up to date of approval for these financial statements, the Company has raised net proceeds of approximately HK$6,924,000 upon the exercise of 138,844,448 units of bonus warrants at the exercise price of HK$0.05 each;

(iv) New Alexander Limited, the holder of the convertible bonds (note 29) and the promissory note (note 30) of the Company as at 31 December 2009, has agreed to provide continual financial support as is necessary to enable the Group to meet its liabilities as and when they fall due; and

(v) Based on the future cash flow forecast, the directors of the Company are of the opinion that the Group will have sufficient working capital for its requirements for the next twelve months after the date of approval of these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of these new and revised HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods except for the impact as described as below.

HKAS 1 (Revised 2007) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. The change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

HKFRS 8 Operating Segments

HKFRS 8, which has replaced HKAS 14 "Segment Reporting", specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocation resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has not resulted in additional reportable segments being identified and presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2009:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate
[3] Effective for annual periods beginning on or after 1 January 2010
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 July 2010
[7] Effective for annual periods beginning on or after 1 January 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loan from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2 (o) or (r) depending on the nature of the liability.

In the Company's statement of financial position, an investment in a subsidiary is sated at cost less impairment losses (see note 2 (l)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Associates and jointly controlled entities

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post acquisition post-tax items of the associate's and jointly controlled entity's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from the Group's transactions with the associate and jointly controlled entity are eliminated to the extent of the Group's relevant interests in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case losses are recognised immediately in profit or loss.

In the Company's statement of financial position, investments in an associate and jointly controlled entity are stated at cost less impairment losses (see note 2 (l)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Associates and jointly controlled entities *(Continued)*

Jointly controlled assets

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of the assets and share of any liabilities incurred jointly with other venture are recognised in the consolidated statement of financial position and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

The income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses included are recognised in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

f) Accounting for production share contracts

Production sharing contract (note 17) constitutes a jointly controlled operation. The Group's interests in production sharing contract are accounted for in the consolidated financial statements on the following bases:

(i) the assets that the Group controls and the liabilities that the Group incurs; and

(ii) the share of expenses that the Group incurs and its share of income from the production according to terms stipulated in the contract.

g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit and is tested annually for impairment (see note 2 (l)(ii)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(l)(ii)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

2. **SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

h) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Other investments in securities are classified as available-for-sale securities are initially recognised at fair value plus transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 2 (x). When these investments are derecognised, the cumulated gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

i) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2 (l)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

2. **SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

i) **Property, plant and equipment *(Continued)***

Buildings	remaining lease term
Leasehold improvements	remaining lease term
Furniture and fixtures	10 to 20%
Gas pipelines	5%
Motor vehicles	10 to 20%
Plant and equipment	10 to 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost in the statement of financial position at cost less impairment losses (see note 2 (l)(ii)). Cost comprises all direct and indirect costs, including interest charges (see note 2 (s)) related to acquisition and installation of property, plant and equipment, incurred before the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

j) **Intangible assets (other than goodwill)**

Intangible assets that are acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2 (l)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Right to use gas pipeline	12 years
Production sharing contract	30 years

Both the period and the method of amortisation are reviewed annually.

Intangible assets are not amortised when their useful lives are assessed to be indefinite. Any conclusion that the useful life of other intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of other intangible assets with finite lives as set out above.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease. It is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2 (i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2 (l)(ii). Finance charge implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term.

2. **SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

l) **Impairment of assets**

(i) *Impairment of investments in equity securities and trade and other receivables*

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities) and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively when financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and trade and other receivables (Continued)

– For available-for-sale equity securities, the cumulative loss that has been recognised directly in equity is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting periods to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);
– goodwill;
– other intangible assets; and
– investments in subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

m) Inventories

Inventories are carried at lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less allowance for impairment of bad and doubtful debts (see note 2 (l)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for bad and doubtful debts.

o) Interest-bearing borrowings and promissory notes

Interest-bearing borrowings and promissory notes are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

p) Convertible bonds

(i) Convertible bonds that contains an equity component

Convertible bonds that can be converted to equity share capital at the option of the holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is measured as the present value of the future interest and principal payments discounted at the market interest rate for similar liabilities that do not have a conversion option. The remaining proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the bond is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profits or accumulated losses.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Convertible bonds *(Continued)*

(ii) Convertible bonds that do not contain an equity component

All other convertible bonds which do not exhibit the characteristics mentioned in (i) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible bonds is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in profit or loss. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the bond is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the bond is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short term highly liquid investments that readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

r) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction in progress of an asset which necessarily takes a substantial period of time to get ready for its intended use of sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

t) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date after taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where the forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until with the options is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is realistic possibility of withdrawal.

u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised without in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. **SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

u) Income tax ***(Continued)***

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

v) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events is also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) Translation of foreign currencies

Transactions included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Group and the Company is Renminbi. The financial statements are presented in Hong Kong dollars, which is the presentation currency of the Company.

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are directly recognised in equity.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Asset and liability items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

x) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Revenue from gas connection is recognised when the outcome of the contract can be estimated reliably and completion for the connection of the relevant gas meter.

Revenue from sale of natural gas and coalbed methane products is recognised based on gas consumption derived from meter readings.

Revenue from sale of electronic components and gas appliances is recognised when goods are delivered and legal title passed to customers.

Interest income is recognised on a time proportion basis using the effective interest rate method.

Government grants are recognised in profit or loss when the grants become receivable.

2. **SIGNIFICANT ACCOUNTING POLICIES** ***(Continued)***

y) Related parties

Parties are considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

z) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the reclassification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2. **SIGNIFICANT ACCOUNTING POLICIES *(Continued)***

z) Non-current assets held for sale and discontinued operations *(Continued)*

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. FINANCIAL RISK MANAGEMENT

Financial risk management is carried out by the finance department under policies approved by the board of directors of the Company. The directors of the Company provide principles for overall risk management, as well as policies covering specific areas, such as currency risk, price risk on embedded conversion option, credit risk, liquidity risk, interest rate risk and oil and gas price risk.

(a) Currency risk

The Group operates primarily in both Hong Kong and the PRC and is exposed to exchange risk arising from transactions with respect to Hong Kong dollar and RMB which are the functional currencies of the operating entities of the Group. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The directors of the Company consider that the Group's exposure to currency risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

As at the year end date, the Group had certain bank balances denominated in United State Dollar ("US$") amounting to HK$17,000 (2008: HK$42,000), which is the currency other than the functional currency of the respective group entities.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The directors of the Company consider that the sensitivity of the Group exposure towards the change in foreign exchange rates is minimal as the assets and liabilities for the Group, denominated in currency other than functional currency of a particular group entity were insignificant as at the end of the reporting period. The sensitivity analysis of US$ bank balances were as follows:

The Group is mainly exposed to the foreign currency risk in US$.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against US$ is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only US$ bank balances, and adjust their translation at the year end for a 5% change in foreign currency rates denominated. A positive number below indicates an increase in post-tax loss when HK$ strengthens 5% against the relevant currency. For a 5% weakening of the HK$ and US$, there would be an equal and opposite impact on the profit or loss.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Currency risk *(Continued)*

	2009	2008
	HK$'000	*HK$'000*
	Increase/ (Decrease) loss	Increase/ (Decrease) profit
US$ bank balances	**1**	(2)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(b) Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at the end of each reporting period with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company' share market price and share price volatility.

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company' share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax loss for the year (as a result of changes in fair values of conversion option component of convertible bonds) would increase by HK$32,094,000 (2008: profit would decrease by HK$21,338,000) and decrease by HK$28,059,000 (2008: profit would increase by HK$20,650,000), respectively.

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible bonds involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features especially the embedded conversion option and mandatory redemption option held by the bondholders are independent.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Credit risk

The Group is exposed to credit risk mainly from trade debtors but there is no significant concentrations of credit risk with any single counterparty or group of counterparties. It has policies in place to ensure that sales are made to customers with an appropriate credit history and limit the amount of credit exposure to any financial institution.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the directors. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk from trade and other receivables are set out in note 22.

The Group places its cash and bank balances with highly rated financial institutions which limits the amount of credit exposure to any one financial institution.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

3. **FINANCIAL RISK MANAGEMENT *(Continued)***

(d) **Liquidity risk *(Continued)***

The following table details the remaining contractual maturities at the year end date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2009					2008				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	-	-	-	-	-	26,004	28,378	21,877	6,501	–
Other borrowings	20,618	20,618	20,618	-	-	45,524	51,390	24,141	4,483	22,766
Obligations under finance lease	-	-	-	-	-	958	1,143	258	885	–
Trade and other payables	29,092	29,092	29,092	-	-	49,847	49,847	49,847	–	–
Promissory note	202,861	227,583	67,583	160,000	-	160,154	240,000	–	240,000	–
Convertible bonds (including embedded derivatives)	1,417,515	1,252,417	-	-	1,252,417	2,024,304	2,000,000	–	–	2,000,000
Amounts due to related parties	-	-	-	-	-	1,779	1,779	1,779	–	–
	1,670,086	1,529,710	117,293	160,000	1,252,417	2,308,570	2,372,537	97,902	251,869	2,022,766

The Company

	2009					2008				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other borrowings	-	-	-	-	-	20,000	20,000	20,000	–	–
Other payables	2,175	2,175	2,175	-	-	4,895	4,895	4,895	–	–
Promissory note	202,861	227,583	67,583	160,000	-	160,154	240,000	–	240,000	–
Convertible bonds (including embedded derivatives)	1,417,515	1,252,417	-	-	1,252,417	2,024,304	2,000,000	–	–	2,000,000
Amounts due to subsidiaries	53,338	53,338	53,338	-	-	32,695	32,695	32,695	–	-
Amounts due to related parties	-	-	-	-	-	1,399	1,399	1,399	–	-
	1,675,889	1,535,513	123,096	160,000	1,252,417	2,243,447	2,298,989	58,989	240,000	2,000,000

3. **FINANCIAL RISK MANAGEMENT *(Continued)***

(e) Interest rate risk

The Group's interest rate risk arises from the Group's bank deposits, long-term borrowings, borrowings issued at variable rates and convertible notes.

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all variables held constant, would increase/decrease the Group's loss for the year and accumulated loss by approximately HK$383,000 (2008: profit would decrease and accumulated loss would increase by HK$129,000). This sensitive analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2008.

(f) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2009 and 2008.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, pledged deposits, trade and other receivables, and trade and other payables.

The carrying amounts of these financial assets and liabilities approximate fair value because of the short maturities of these instruments.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(g) Oil and gas price risk

Apart from the financial instruments disclosed above, the Group's activities expose it to market risk relating to oil and gas price risk.

The Group is engaged in a wide range of gas related activities. The global oil and gas market is affected by international political, economic and global demand for and supply of oil and gas. A decrease in the world prices of crude oil and gas could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil and refined products. The management will consider hedging oil and gas exposure should the need arises.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of property, plant and equipment

The Group tests at least annually whether assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(ii) Fair value of available-for-sale investments

The fair value of each investment individually is determined at the end of each reporting period by reference to comparable market information. It is also being reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset has been affected. The fair value also reflects any net discounted cash flows that could be expected from the investment.

(iii) Income taxes and deferred taxation

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences will impact the recognition of deferred tax and tax in the periods in which such estimate is changed.

(iv) Impairment of receivables

The Group maintains impairment allowance for doubtful debts account based upon evaluation of the recoverability of the accounts receivable and other receivables. The estimates are based on the ageing of the accounts receivables and other receivables balances and the historical impairment experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(v) Useful lives and amortisation of intangible assets

Production sharing contract and right to use gas pipelines are amortised on a straight-line basis over the periods of 30 years and 12 years, respectively. The management determines the estimated useful lives and basis for amortisation for its production sharing contract and right to use gas pipelines, takes into account factors including, but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service of the assets. The estimation of the useful lives and basis for amortisation is a matter of judgment based on the experience of the Group. Management reviews the useful lives and basis for amortisation of intangible assets annually, and if expectations are significantly different from previous estimates of useful economics lives and basis for amortisation and therefore, the amortisation rate for future periods will be adjusted accordingly.

Had different amortisation rate been used to calculate the amortisation of the production share contract, the Group's result of operations and financial position could be materially different.

(vi) Estimates of reserves of coalbed methane for the contract area under the Production Sharing Contract

Reserves are estimates of the amount of coalbed methane that can be economically and legally extracted from the designated contract area under the Production Sharing Contract as referred to note 17. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transports costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of coalbed or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset carrying values may be affected due to changes in estimated future cash flows;

– Depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the units of production basis, or where the useful economics lives of assets change;

– Decommissioning site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and

– The carrying amount of deferred tax may change as a result of changes in the asset carrying amount as discussed above.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(vii) Impairment of intangible asset – Production Sharing Contract

The fair value of the Production Sharing Contract (note 17) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by BMI Appraisal Limited and a technical assessment report issued by Netherland, Sewell & Associates, Inc. Both the valuer and technical advisor are not connected with the Group and with appropriate qualifications and relevant experiences in the industry. The valuation conformed to the general guidance as stated in HKFRS 3 para 45 on determining the fair values of intangible assets. The fair value of the intangible asset as at the end of the reporting period was arrived at by income approach valuation methodology.

Had different parameters and discount rate been used to determine the fair value of the intangible asset, the Group's results of operations and financial position could be materially different.

(viii) Fair value of embedded derivatives portion of convertible bonds

The fair value of the embedded derivatives portion of the convertible bonds that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible bonds based on the independent professional valuations, using the binominal options model which requires various sources of information and assumptions. The carrying amount of embedded derivative portion of the convertible bonds as at 31 December 2009 was HK$226,525,000 (2008: HK$146,953,000). Further details are disclosed in note 29 to the financial statements.

(ix) Functional currency

The Group has adopted Renminbi as the functional currency, which is the currency of the primary economic environment in which the Group operates. The determination of the functional currency requires significant judgement and the adoption of Renminbi as functional currency of the Group has affected the results and the application of accounting treatment of the Group.

(x) Assets and liabilities of the disposal group classified as held for sale

As set out in note 12 and in December 2009, the Company decided to discontinue the natural gas supply business which has been undertaken by the Chongqing Natural Gas Companies (note 12) which have been classified as a disposal group held for sale. The directors of the Company expected the disposal to be completed within the next year, after having taken due care and considerations of the circumstances relating to the Chongqing Natural Gas Companies up to the date of approval for these financial statements. The carrying amounts of assets of the disposal group held for sale of HK$97,117,000, net off the impairment of HK$92,652,000 recognised, and the associated liabilities of HK$45,741,000 have been separately disclosed and included in consolidated statement of financial position as at 31 December 2009. The determination of the fair value of these assets and liabilities of the disposal group less cost to sell requires significant judgement which may have significant impact on the results and financial position of the Group as at 31 December 2009.

5. TURNOVER

	2009	2008
	HK$'000	*HK$'000*
Continuing operations:		
Sale of electronic components	**43,207**	49,034
Sale of coalbed methane products	**2,369**	289
	45,576	49,323

6. SEGMENT INFORMATION

The Group manages its business by divisions, which are mainly organised by business lines. On first-time adoption of HKFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the board of directors (as chief operating decision maker) for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Continuing operations:

– Sale of electronic components

– Exploration and exploitation of coalbed methane

Discontinued operation (note 12):

– Sale of natural gas

Information regarding the above segments is reported below. Amounts reported for the prior year have been re-stated to conform to the requirements of HKFRS 8.

For those items of revenue, income, expenses, assets and liabilities that are related to the central administration and incurred at corporate level and are not allocated into the above operating segments, they are presented under the column of "Unallocated" in the following tables.

6. SEGMENT INFORMATION *(Continued)*

Operating segments

Year ended 31 December 2009

	Continuing operations				Discontinued Operation *(note 12)*	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Segment revenue						
Revenue from external customers	43,207	2,369	–	45,576	100,506	146,082
Reporting segment results before taxation	(2,120)	(3,977)	–	(6,097)	17,966	11,869
Other income	–	–	381	381	6,725	7,106
Unallocated corporate expenses	–	–	(35,302)	(35,302)	–	(35,302)
Amortisation of production sharing contract	–	(124,674)	–	(124,674)	–	(124,674)
Fair value change of convertible bonds' embedded derivatives	–	(304,332)	–	(304,332)	–	(304,332)
Gain on disposal of subsidiaries	–	–	3,092	3,092		3,092
Impairment loss on property, plant and equipment	–	–	–	–	(87,006)	(87,006)
Impairment loss on right to use gas pipelines	–	–	–	–	(5,646)	(5,646)
Finance income	–	–	–	–	657	657
Finance cost	–	(73,016)	(159)	(73,175)	(2,735)	(75,910)
Loss before taxation	(2,120)	(505,999)	(31,988)	(540,107)	(70,039)	(610,146)
Reporting segment assets	7,819	3,647,210	–	3,655,029	97,117	3,752,146
Unallocated corporate assets	–	–	42,894	42,894	–	42,894
Total assets	7,819	3,647,210	42,894	3,697,923	97,117	3,795,040
Reporting segment liabilities	16,650	2,554,539	–	2,571,189	45,741	2,616,930
Unallocated corporate liabilities	–	–	3,468	3,468	–	3,468
Total liabilities	16,650	2,554,539	3,468	2,574,657	45,741	2,620,398
Other information for amounts included in the measures of segment results or segment assets:						
Depreciation	74	4,202	598	4,874	9,288	14,162
Amortisation of right to use gas pipelines	–	–	–	–	566	566
Impairment on trade receivables	130	–	–	130	–	130
Impairment on other receivable from a former related party	–	–	–	–	2,853	2,853
Write-down of inventories	62	–	–	62	–	62
Loss on disposal of property, plant and equipment	127	–	–	127	4,937	5,064
Additions to property, plant and equipment	–	3,429	2,092	5,521	21,436	26,957

6. SEGMENT INFORMATION *(Continued)*

Operating segments *(Continued)*

Year ended 31 December 2008

	Continuing operations				Discontinued operation *(note 12)*	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Reportable segment revenue						
Revenue from external customers	49,034	289	–	49,323	90,117	139,440
Reportable segment results before taxation	(1,071)	(703)	–	(1,774)	6,777	5,003
Other income	–	–	–	–	–	–
Unallocated corporate expenses	–	–	(33,191)	(33,191)	–	(33,191)
Impairment loss of goodwill	–	–	–	–	(167,279)	(167,279)
Amortisation of production sharing contract	–	(10,283)	–	(10,283)	–	(10,283)
Fair value change of convertible bonds' embedded derivatives	–	(21,983)	–	(21,983)	–	(21,983)
Discount on acquisition of subsidiaries	–	545,470	–	545,470	–	545,470
Finance income	–	–	566	566	178	744
Finance costs	–	(7,019)	(277)	(7,296)	(2,526)	(9,822)
(Loss)/profit before taxation	(1,071)	505,482	(32,902)	471,509	(162,850)	308,659
Reportable segment assets	2,627	3,743,867	–	3,746,494	185,624	3,932,118
Unallocated corporate assets	–	–	51,152	51,152	–	51,152
Total assets	2,627	3,743,867	51,152	3,797,646	185,624	3,983,270
Reportable segment liabilities	11,873	3,198,404	–	3,210,277	27,507	3,237,784
Unallocated corporate liabilities	–	–	7,258	7,258	–	7,258
Total liabilities	11,873	3,198,404	7,258	3,217,535	27,507	3,245,042
Other information for amounts included in the measures of segment results or segment assets:						
Depreciation	74	207	1,258	1,539	8,047	9,586
Amortisation of right to use gas pipelines	–	–	–	–	560	560
Impairment on trade receivables	35	–	–	35	–	35
Impairment on other receivable from a former related party	–	–	–	–	–	–
Write-down of inventories	3	–	–	3	–	3
Loss on disposal of property, plant and equipment	760	–	–	760	330	1,090
Additions to property, plant and equipment	–	23,136	1,845	24,981	22,431	47,412

6. **SEGMENT INFORMATION *(Continued)***

Geographical information

	Continuing operations		
	Hong Kong	**PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
2009			
Revenue	**43,207**	**2,369**	**45,576**
Non-current assets (other than available-for-sale financial assets)	**155**	**3,640,759**	**3,640,914**
2008			
Revenue	49,034	289	49,323
Non-current assets (other than available-for-sale financial assets)	2,408	3,906,835	3,909,243

The discontinued operation (note 12) was primarily derived from external customers based in the PRC and all assets of this discontinued operation were located in the PRC. No geographical information for the discontinued operation is presented in accordance with HKFRS 8 "Operating Segments".

Information about major customers

Continuing operations

The Group has only one customer with whom transactions have exceeded 10% of the Group's total revenue for the year ended 31 December 2009 and the amount of sales to this customer amounted to HK$29,490,000. For the year ended 31 December 2008, there was no single customer with whom transactions exceeded 10% of the Group's total revenue.

7. **OTHER INCOME**

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Tooling income for unclaimed moulding fee	**172**	339
Sundry income	**209**	64
	381	403

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation from continuing operations is arrived at after charging:

		Continuing operations	
		2009	2008
		HK$'000	*HK$'000*
(a)	Finance costs –		
	interest expenses on following borrowings wholly repayable within five years		
	Promissory note *(note 30)*	**52,290**	4,697
	Convertible bonds *(note 29)*	**20,726**	2,322
	Bank loans and overdrafts	**81**	78
	Finance lease obligations	**78**	16
	Other borrowings	**–**	183
		73,175	7,296
(b)	Staff costs (including directors' emoluments)		
	Salaries, wages and other benefits	**21,235**	21,122
	Contributions to defined contribution retirement plans	**268**	393
		21,503	21,515
(c)	Other items		
	Depreciation		
	– Owned assets	**4,874**	1,484
	– Leased assets	**–**	55
	Cost of inventories sold	**38,341**	42,265
	Operating lease rental expense for land and buildings	**4,338**	4,552
	Loss on disposal of property, plant and equipment	**127**	760
	Impairment on trade receivables	**130**	35
	Write-down of inventories	**62**	3
	Auditor's remuneration		
	– Audit services	**950**	1,200
	– Non-audit services	**125**	450
	Legal and professional fees	**3,814**	3,002

9. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2009				
	Directors' fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement scheme contributions *HK$'000*	Benefits-in-kind *HK$'000*	Total *HK$'000*
Executive directors					
Tong Nai Kan	**150**	**2,400**	**12**	**1,540**	**4,102**
Chow Sim Chu, Shirley (resigned on 1 August 2009)	**88**	**634**	**12**	**–**	**734**
Tan Chuanrong (resigned on 10 June 2009)	**–**	**–**	**–**	**–**	**–**
Wang Wengang (resigned on 1 September 2009)	**100**	**690**	**4**	**–**	**794**
Tsang Ching Man (appointed on 1 August 2009)	**–**	**325**	**5**	**–**	**330**
Tam Tak Wah (appointed on 1 September 2009)	**–**	**195**	**4**	**–**	**199**
Lo Tai In (appointed on 1 August 2009)	**–**	**60**	**3**	**–**	**63**
Pang Yuen Shan Christina (appointed as Independent Non-executive Director on 1 August 2009 and was re-designated as the Executive Director on 30 September 2009)	**–**	**–**	**–**	**–**	**–**
Non-executive director					
Ko Ming Tung, Edward (resigned on 1 September 2009)	**100**	**–**	**–**	**–**	**100**
Independent non-executive directors					
Tang Tin Sek (resigned on 10 June 2009)	**66**	**–**	**–**	**–**	**66**
Liu Ngai Wing (resigned on 30 September 2009)	**112**	**–**	**–**	**–**	**112**
Lam Yat Fai (resigned on 31 July 2009)	**87**	**–**	**–**	**–**	**87**
Chan Kin Sang (resigned on 30 September 2009)	**112**	**–**	**–**	**–**	**112**
Pang Yuen Shan Christina (appointed as Independent Non-executive Director on 1 August 2009 and was re-designated as the Executive Director on 30 September 2009)	**16**	**–**	**–**	**–**	**16**
Chan Tsz Kit (appointed on 30 September 2009)	**25**	**–**	**–**	**–**	**25**
Wang Li (appointed on 30 September 2009)	**25**	**–**	**–**	**–**	**25**
Wong Kwok Hong Simon (appointed on 30 September 2009)	**25**	**–**	**–**	**–**	**25**
	906	**4,304**	**40**	**1,540**	**6,790**

9. **DIRECTORS' EMOLUMENTS *(Continued)***

	2008				
	Directors' fees	Salaries and allowances	Retirement scheme contributions	Benefits-in-kind	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Tong Nai Kan	150	2,400	12	1,968	4,530
Chow Sim Chu, Shirley	150	630	12	–	792
Tan Chuanrong	45	1,225	–	–	1,270
Wang Wengang (appointed on 15 December 2008)	7	54	–	–	61
Chen Jiqing (resigned on 26 March 2008)	–	–	–	–	–
Non-executive director					
Ko Ming Tung, Edward (appointed on 5 March 2008)	124	–	–	–	124
Independent non-executive directors					
Tang Tin Sek	150	–	–	–	150
Liu Ngai Wing	150	–	–	–	150
Lam Yat Fai	150	–	–	–	150
Chan Kin Sang	150	–	–	–	150
	1,076	4,309	24	1,968	7,377

There was no amount paid during the years ended 31 December 2009 and 2008 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Out of the emoluments of the five individuals with the highest emoluments, two (2008: three) are directors, whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three (2008: two) individuals are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	**4,837**	2,680
Contributions to retirement benefits schemes	**24**	24
	4,861	2,704

The emoluments of these individuals with the highest emoluments fell within the following bands:

	Number of individuals	
Emoluments bands	**2009**	2008
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,500,000	**1**	–
	3	2

There was no amount paid or payable during the years ended 2009 and 2008 to any of these individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
PRC enterprise income tax	**–**	–
Deferred taxation		
Reversal of the temporary difference arising from the amortisation of intangible assets *(notes 17 and 31)*	**31,169**	2,571
Taxation for the continuing operations	**31,169**	2,571

11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit before taxation from continuing operations	**(540,107)**	471,509
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the countries concerned	**(100,226)**	74,609
Income not subject to taxation	**(1,540)**	(89,930)
Expenses not deductible for taxation purposes	**101,444**	15,144
Deferred tax recognised on the reversal of the temporary difference on the amortisation of intangible assets *(notes 17 and 31)*	**(31,169)**	(2,571)
Tax effect of tax losses not recognised	**322**	177
Taxation for continuing operations	**(31,169)**	(2,571)

(c) Current taxation in the consolidated statement of financial position represented:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Provision for PRC enterprise income tax	**–**	1,112

(d) Hong Kong profits tax has not been provided as the Group do not have any assessable profit for both years. Taxation on overseas profits had been calculated on the estimated assessable profit for both years at the rates of taxation prevailing in the countries in which the Group operates.

The Company's wholly-owned subsidiary, Can-Elite, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 30%.

Pursuant to the tax treaty agreement between the Government of the PRC and the Government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deducted from any Canadian tax payable in respect of such profits, income or gains.

The subsidiaries in the PRC are subject to an income tax rate of 15%, being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in the PRC are exempted from enterprise income tax for two years commencing from their first profit-making year of operation in 2007 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

(d) *(Continued)*

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises.

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and PRC for avoidance of double taxation and prevention of tax evasion, dividends declared from PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax from 1 January 2008 and onwards.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009

On 2 December 2009, the directors of the Company resolved to discontinue the operation of natural gas supply in Chongqing, the PRC which is undertaken by the subsidiaries of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas"), namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies") all established in the PRC. The Chongqing Natural Gas Companies have been reclassified as a disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" ("HKFRS 5").

In early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Company has taken a series of urgent measures, including but not limited to reporting the case to the Ministry of Public Security in Chongqing, the PRC, with a view to securing the Company's legitimate interests in the Chongqing Natural Gas Companies. Immediately following this instance in early February 2010, temporary supervisory committees for the Chongqing Natural Gas Companies were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, the PRC ("Supervisory Committees") in order to, among other things, supervise the operation of the Chongqing Natural Gas Companies and secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies are subject to the Supervisory Committees' approval, which include the management of funds, expenses, personnel changes and purchase and management of materials. The Supervisory Committees are also empowered to investigate any other material issues in connection with the Chongqing Natural Gas Companies.

The directors of the Company considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

The directors of the Company have prepared the following financial information concerning the Chongqing Natural Gas Companies classified as a discontinued operation and disposal group held for sale in accordance with HKFRS 5, based on the audited PRC statutory financial statements of each of the Chongqing Natural Gas Companies for the year ended 31 December 2009, prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC, for which 重慶康華會計師事務所有限責任公司, the certified public accountants registered in the PRC, issued an unqualified audit opinion in January 2010.

(a) The results of the discontinued operation and disposal group classified as held for sale are set out below:

	2009	2008
	HK$'000	*HK$'000*
Turnover	**100,506**	90,117
Cost of natural gas sold	**(57,814)**	(58,881)
Gross profit	**42,692**	31,236
Interest income	**657**	178
Other income	**6,725**	701
Selling and distribution expenses	**(2,460)**	(11,019)
Administrative expenses	**(22,266)**	(14,141)
Impairment loss on property, plant and equipment *(note (d) below)*	**(87,006)**	–
Impairment loss on rights to use gas pipelines *(note (d) below)*	**(5,646)**	–
Impairment loss on goodwill *(note (h) below)*	**–**	(167,279)
Finance costs	**(2,735)**	(2,526)
Loss before taxation	**(70,039)**	(162,850)
Income tax	**(1,718)**	(791)
Loss for the year	**(71,757)**	(163,641)

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

(a) The loss before taxation of the discontinued operation and disposal group classified as held for sale is stated after charging:

	2009	2008
	HK$'000	*HK$'000*
Depreciation	**9,288**	8,047
Amortization of right to use gas pipelines	**566**	560
Employee benefit expenses:		
Salaries, wages and other benefits	**8,004**	8,125
Contributions to defined contribution retirement plans	**1,475**	1,335

(b) Income tax

	2009	2008
	HK$'000	*HK$'000*
PRC enterprise income tax	**1,718**	1,443
Deferred tax on the reversal of the temporary difference on the amortisation of intangible assets	**–**	(652)
	(1,718)	(791)

The applicable tax rates of the Chongqing Natural Gas Companies are set out in note 11(d).

(c) The net cash flows of the discontinued operation and disposal group classified as held for sale for the year ended 31 December 2009 and 2008 are as follows:

	2009	2008
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**28,020**	12,199
Net cash outflow from investing activities	**(12,452)**	(29,127)
Net cash outflow from financing activities	**(8,937)**	(11,652)
Net cash inflow/(outflow) incurred by the discontinued operation	**6,631**	(28,580)

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

(d) Non-current assets and liabilities of a disposal group classified as held for sale

The carrying amount of major classes of assets and liabilities of a discontinued operation and disposal group classified as held for sale are analysed as follows:

The Group

	Note	Carrying amount before impairment	Impairment immediately before reclassification as disposal group held for sale	Carrying amount at 31 December 2009
		HK$'000	*HK$'000*	*HK$'000*
Assets of a discontinued operation and a disposal group classified as held for sale				
Property, plant and equipment	15	153,677	(87,006)	66,671
Prepaid lease payments	16	2,337	–	2,337
Rights to use gas pipelines	17	5,646	(5,646)	–
Inventories	21	1,062	–	1,062
Trade and other receivables	22, 23	17,064	–	17,064
Cash and bank balances	24	9,983	–	9,983
		189,769	(92,652)	97,117
Liabilities of a discontinued operation and a disposal group classified as held for sale				
Trade and other payables	32	19,643	–	19,643
Current taxation	11(c)	3,819	–	3,819
Bank loans	28	16,499	–	16,499
Other borrowings	28	569	–	569
Deferred tax liabilities	31	5,211	–	5,211
		45,741	–	45,741
Assets less liabilities of disposal group held for sale		144,028	(92,652)	51,376

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

(d) Non-current assets and liabilities of a disposal group classified as held for sale *(Continued)*

The directors of the Company have carefully assessed the expected recoverable value of the disposal group with due considerations of pertaining factors, including but not limited to, its future prospect and profitability attributable to the decreased new gas account connection fees income, expected rising running costs and repair and maintenance costs, the contingencies as disclosed in note (e) below and the offers for the purchase of the entire equity interests of the disposal group at RMB50 million received thus far. In the opinion of the directors of the Company, the above impairment of HK$92,652,000 on the assets was necessary and the net carrying amount of the disposal group of HK$51,376,000 (assets less liabilities) was reasonably determined and approximated the fair value of the assets less associated liabilities of the disposal group less cost to sell.

(e) Contingent liabilities of a disposal group classified as held for sale

(i) On 15 March 2009, Yunyang Province Natural Gas Exploration Office (雲陽縣天然氣開發辦公室) (the "Plaintiff") lodged a petition to Chongqing No.2 Intermediate People's Court (重慶市第二中級人民法院) (the "Court") against 重慶三峽(燃氣)集團有限公司(Chongqing Three Gorges Natural Gas (Group) Limited ("Chongqing Three Gorges") in breach of the exploitation and operation contract and requested to terminate the exploitation and operation contract.重慶三峽(燃氣)集團有限公司("Chongqing Three Gorges") was owned by the former shareholder of Chongqing Yunyang Natural Gas Company Limited and Yunyang Three Gorges Compressed Natural Gas Company Limited (collectively the "Two PRC Subsidiaries"). The Two PRC Subsidiaries were at a later stage drawn as parties to the lawsuit and had joined the court proceedings on 28 August 2009 which lawsuit was subsequently withdrawn pursuant to the order issued by the Court dated 6 February 2010.

(ii) On 4 March 2010, the Plaintiff (as referred to note (i) above) instituted another lawsuit against 重慶三峽(燃氣)集團有限公司("Chongqing Three Gorges") and the Two PRC Subsidiaries (the "new lawsuit") in which the Plaintiff alleged 重慶三峽(燃氣)集團有限公司 ("Chongqing Three Gorges") had been in breach of the exploitation and operating contract entered into between the Plaintiff and 重慶三峽(燃氣)集團有限公司("Chongqing Three Gorges") by (1) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the contract to the Two PRC Subsidiaries; and (2) selling the shareholding interests in the Two PRC subsidiaries to the Company in 2006 without the consent of the Plaintiff. The Plaintiff now seeks an order from the Court to set aside the contract. The Company is still seeking legal advice in respect of the new lawsuit.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

(e) Contingent liabilities of a disposal group classified as held for sale *(Continued)*

(iii) On 30 January 2008, each of the Chongqing Natural Gas Companies entered into an agreement with 重慶維洲交通設施安裝有限責任公司, an independent third party not associated with the Group and its management, pursuant to which 重慶維洲交通設施安裝有限責任公司shall charge a fee of RMB0.3 per cubic meter of the gas supplied by 重慶凱源石油天然氣有限責任公司as consideration for its arrangement services for stable gas supply for a period commencing from 1 February 2008 to date of business cessation of each of the Chongqing Natural Gas Companies. Management of each of the Chongqing Natural Gas Companies considered that 重慶維洲交通設施安裝有限責任公司has not fulfilled its obligations under the aforesaid agreement and therefore, each of the Chongqing Natural Gas Companies terminated this agreement without consent of 重慶維洲交通設施安裝有限責任公司and discontinued to accrue for the above service fee beginning from February 2009.

(f) Commitments of a disposal group classified as held for sale

At 31 December 2009, there were no material commitments in each of the Chongqing Natural Gas Companies.

(g) Charges on assets of a disposal group classified as held for sale

At 31 December 2009, the bank loans of HK$14,224,000 (2008: HK$22,612,000) were secured by the rights to collect revenue on sales of natural gas of the Chongqing Natural Gas Companies.

(h) Goodwill – 2008

	2009 ***HK$'000***	2008 *HK$'000*
Cost:		
At 1 January	**159,058**	159,058
Exchange adjustments	**8,221**	8,221
Impairment loss recognised	**(167,279)**	(167,279)
At 31 December	**–**	–

Goodwill arising from the acquisition of Sanxia Gas (BVI) Investment Limited in 2006 was allocated to the Group's cash-generating unit ("CGU"), namely natural gas, identified according to business segment.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009 *(Continued)*

(h) Goodwill – 2008 *(Continued)*

For the year ended 31 December 2008, management had appointed an independent valuer, Asset Appraisal Limited with relevant experience and qualification, to perform a professional valuation of the CGU. The recoverable amount of goodwill was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and extrapolated beyond the five-year using an estimated growth rate. The growth rate did not exceed the long-term average growth rate for the energy business.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used was consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflect specific risks relating to the relevant segment.

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next five years on an estimated growth pattern at growth rates of 10% and a discount rate of 25%.

Based on the assessment of impairment test, due to the decline in gas prices, adverse market conditions and unsatisfactory stagnant growth in the gas connection fees, full impairment of approximately HK$167,279,000 for the goodwill was recognised in the consolidated income statement for the year ended 31 December 2008.

13. (LOSS)/PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated (loss)/profit for the year attributable to the owners of the Company includes a loss of HK$551,669,000 (2008: HK$142,727,000) which has been dealt with in the financial statements of the Company.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic loss/(earnings) per share

The (loss)/profit and weighted average number of ordinary shares used in the calculation of basic (loss)/earnings per share are as follows:

	2009	2008
	HK$	*HK$*
(Loss)/profit used in the calculation of total basic (loss)/earnings per share from continuing and discontinued operations	**(580,695)**	310,439
(Loss)/profit for the year from discontinued operation used in the calculation of basic (loss)/earnings per share from discontinued operation	**(71,757)**	(163,641)
(Loss)/profit used in the calculation of basic (loss)/earnings per share from continuing operations	**(508,938)**	474,080

Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share during the year:	**2009**	2008
Issued ordinary shares at 1 January	**2,950,434,391**	1,900,434,391
Effect of conversion of convertible bonds	**1,246,423,255**	–
Effect of exercise of bonus warrants	**493,032**	–
Issue of new ordinary shares on placement	**203,753,425**	136,301,370
Issue of new ordinary shares on acquisition	**–**	78,904,110
Issued ordinary shares at 31 December	**4,401,104,103**	2,115,639,871

(b) Diluted (loss)/earnings per share

	2009	2008
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share during the year:	**4,401,104,103**	2,115,639,871

The diluted (loss)/earnings per share for the year ended 31 December 2009 and 2008 is same as the basic (loss)/earnings per share as the conversion/exercise price of outstanding convertible bonds and share options and/or bonus warrants during 2009 and 2008, where applicable, was higher than the average market price of the Company's share and accordingly, there was no dilutive effect on the basic (loss)/earnings per share for both years.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Gas pipelines	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At 1 January 2008	10,030	125,688	952	5,202	5,444	4,188	1,186	152,690
Exchange adjustment	601	7,534	57	249	66	69	52	8,628
Acquisition of subsidiaries	–	–	–	22,961	175	–	–	23,136
Additions	314	254	20,828	875	321	1,678	6	24,276
Transfer from construction in progress	47	4,578	(7,278)	2,653	–	–	–	–
Disposals	–	(1,737)	–	(20)	(522)	–	(509)	(2,788)
At 31 December 2008 and 1 January 2009	10,992	136,317	14,559	31,920	5,484	5,935	735	205,942
Exchange adjustment	67	831	95	444	7	10	2	1,456
Additions	–	16,010	3,874	3,940	411	2,586	136	26,957
Disposals	–	(6,460)	(8,822)	–	(2,681)	(2,559)	–	(20,522)
Disposal of a subsidiary *(note 37)*	–	–	–	–	(3)	(4,002)	–	(4,005)
Assets of disposal group held for sale *(note 12(d))*	(11,059)	(146,698)	(8,063)	(11,619)	(1,108)	(1,691)	(562)	(180,800)
At 31 December 2009	–	–	1,643	24,685	2,110	279	311	29,028
Accumulated depreciation:								
At 1 January 2008	721	8,760	–	1,098	3,718	1,768	342	16,407
Exchange adjustment	47	570	–	72	12	12	10	723
Charge for the year	334	6,638	–	810	890	740	174	9,586
Written back on disposal	–	(617)	–	(10)	(112)	–	(54)	(793)
At 31 December 2008 and 1 January 2009	1,102	15,351	–	1,970	4,508	2,520	472	25,923
Exchange adjustment	8	121	–	30	3	3	1	166
Charge for the year	470	7,480	–	5,044	292	752	124	14,162
Written back on disposal	–	(1,411)	–	–	(2,632)	(1,600)	–	(5,643)
Disposal of a subsidiary *(note 37)*	–	–	–	–	(2)	(1,085)	–	(1,087)
Assets of disposal group held for sale *(note 12(d))*	(1,580)	(21,541)	–	(2,724)	(415)	(577)	(286)	(27,123)
At 31 December 2009	–	–	–	4,320	1,754	13	311	6,398
Carrying amount:								
At 31 December 2009	–	–	1,643	20,365	356	266	–	22,630
At 31 December 2008	9,890	120,966	14,559	29,950	976	3,415	263	180,019

No property, plant and equipment was pledged as security for bank loans of the Group for both years.

15. PROPERTY, PLANT AND EQUIPMENT ***(Continued)***

The Company

	Furniture and fixtures *HK$'000*	Motor Vehicles *HK$'000*	Total *HK$'000*
Cost:			
At 1 January 2008	4,202	1,604	5,806
Additions	182	–	182
Disposal	(1,021)	–	(1,021)
Exchange adjustments	82	41	123
At 31 December 2008 and 1 January 2009	3,445	1,645	5,090
Additions	327	–	327
Disposal	(2,974)	(918)	(3,892)
Exchange adjustments	4	4	8
At 31 December 2009	802	731	1,533
Accumulated depreciation:			
At 1 January 2008	2,267	407	2,674
Charge for the year	809	271	1,080
Written back on disposal	(157)	–	(157)
Exchange adjustments	12	5	17
At 31 December 2008	2,931	683	3,614
Charge for the year	125	180	305
Written back on disposal	(2,765)	(611)	(3,376)
Exchange adjustments	1	1	2
At 31 December 2009	292	253	545
Carrying amount:			
At 31 December 2009	510	478	988
At 31 December 2008	514	962	1,476

16. PREPAID LEASE PAYMENTS

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Outside Hong Kong		
– Leases of between 10 to 50 years	–	436
– Over 50 years	–	1,290
– No expiry date	–	798
	–	2,524
Analysed for reporting purposes as		
– Current assets	–	202
– Non-current assets	–	2,322
	–	2,524

The prepaid operating lease payments represented leasehold land and land use rights in the PRC in connection with the business components of natural gas supply in Chongqing, the PRC which was discontinued and reclassified as a disposal group held for sale and therefore, the prepaid operating lease payments were reclassified as assets of a disposal group and separately disclosed in note 12(d).

17. INTANGIBLE ASSETS

The Group

	Production sharing contract ("PSC") *(note (a) and (b))* *HK$'000*	Right to use gas pipelines *(note (c))* *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2008	–	7,104	7,104
Acquisition of subsidiaries *(note 36)*	3,741,200	–	3,741,200
Exchange adjustments	(10,110)	426	(9,684)
At 31st December 2008 and 1 January 2009	3,731,090	7,530	3,738,620
Assets of a disposal group classified as held for sale *(note 12(d))*	–	(7,576)	(7,576)
Exchange adjustments	22,749	46	22,795
At 31 December 2009	3,753,839	–	3,753,839
Accumulated amortisation			
At 1 January 2008	–	744	744
Charge for the year	10,283	560	10,843
Exchange adjustments	81	50	131
At 31 December 2008 and 1 January 2009	10,364	1,354	11,718
Charge for the year	124,674	566	125,240
Assets of a disposal group classified as held for sale *(note 12(d))*	–	(1,930)	(1,930)
Exchange adjustments	517	10	527
At 31 December 2009	135,555	–	135,555
Carrying amount:			
At 31 December 2009	3,618,284	–	3,618,284
At 31 December 2008	3,720,726	6,176	3,726,902

17. INTANGIBLE ASSETS *(Continued)*

(a) Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008 as referred to note 36 to the financial statements, the Group has obtained the interest in a coalbed methane production sharing contract which was entered into between Canada Can-Elite Energy Limited ("Can-Elite"), a wholly-owned subsidiary, and China United Coalbed Methane Corporation Limited ("China United") on 8 November 2007 ("PSC"). The interests of China United and Can-Elite under the PSC are in the proportion of 30% and 70% respectively, or in proportion to their participating interests in the development costs.

On 21 March 2008, the PSC was approved by the Ministry of Commerce of the PRC in respect of (i) the execution and implementation of the PSC: (ii) the terms of the PSC; and (iii) 70:30 profit sharing ratio between Can-Elite and China United. Beijing Z&D Law Firm, the legal adviser of the Company as to the PRC laws, advised that China United and Can-Elite had obtained all relevant approvals in relation to the execution and implementation of the PSC.

On 28 February 2009, Can-Elite and China United entered into a modification agreement, which forms an integral part of PSC, pursuant to which (i) the contract area which the PSC has been increased from 356.802 to 567.843 square kilometres by an additional area of 211.041 square kilometres adjacent to the original contract area, at zero costs; and (ii) during the exploration period, number of drills to be conducted by Can-Elite under the PSC has been increased from 8 to 11 drills and the exploration costs shall be increased from RMB17,850,000 to RMB28,400,000. All other terms of the PSC shall remain unchanged. The modification agreement to PSC was approved by the Ministry of Commerce of the PRC on 16 March 2009.

China United was established in 1996 and its principal business includes the exploitation, exploration, development, production and delivery and transportation of coalbed methane in the PRC and provision of ancillary services in relation thereto. The State Council of the PRC had in 1996 granted an exclusive right to China United to explore, develop and produce coalbed methane in cooperation with overseas companies. China United has obtained the approval from State Council of the PRC to have the option to cooperate with a foreign enterprise to exploit the coalbed methane resources in the contract area in a block covering approximately 567.843 square kilometres in the Su'nan Area of Auhui Province, the PRC under the PSC together with modification dated on 28 February 2009 ("CBM Contract Area"). Pursuant to the PSC, Can-Elite is engaged as a foreign partner to provide advanced technology and assign its competent experts to explore, develop, produce and sell coalbed methane, liquid hydrocarbons or coalbed methane products extracted from the CBM Contract Area. China United shall, among others, facilitate local approvals and liaison with local and government bodies and market the coalbed methane and liquid hydrocarbons and sell the same to prospective buyers.

The PSC provides a term of thirty consecutive years, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which is set up by Can-Elite and China United, pursuant to the PSC, to oversee the operations in the CMB Contract Area.

17. INTANGIBLE ASSETS *(Continued)*

(a) *(Continued)*

Pursuant to the PSC and its modification dated 28 February 2009, during the exploration period, Can-Elite shall (i) drill an aggregate of 11 wells for exploration; and (ii) invest at least an aggregate amount of RMB28,400,000 (equivalent to approximately HK$32,306,000) for 11 wells in the exploration period. Can-Elite shall first bear all the exploration costs, bearing no interest, which shall be recovered in kind out of coalbed methane and liquid hydrocarbons produced from any coalbed methane field, after the exploration costs have been converted into quantities of coalbed methane and liquid hydrocarbons based on the prevailing free market price of coalbed methane and liquid hydrocarbons. If no coalbed methane or liquid hydrocarbon is discovered in the CBM Contract Area, the exploration costs incurred by Can-Elite shall be deemed as its losses.

Can-Elite and China United shall be reimbursed the cost incurred during the development and production periods in the proportion of 70% and 30% respectively, or in proportion to their participating interests of each coalbed methane field. Upon extraction of the coalbed methane and liquid hydrocarbons, the coalbed methane and liquid hydrocarbons products shall be sold by China United and deposit the proceeds into a joint bank account opened by Can-Elite, and distribute the profits between the parties in the proportion of their participating interests in the development costs, or any other marketing approaches and procedures agreed by Can-Elite and China United.

For all assistance to be provided by China United, the administrative fee is in the sum of US$30,000 (equivalent to HK$234,000) and US$50,000 (equivalent to HK$390,000) payable by Can-Elite to China United during the exploration period, and the development and production period, respectively, as agreed by Can-Elite and China United with reference to the administrative fee payable by other foreign investors with China United in other production sharing contracts. In the opinion of the Directors of the Company, the administrative fee payable by the Can-Elite is comparable to that payable by other foreign investors with China United in other production sharing contracts.

The interest on the development cost incurred by Can-Elite and China United for each coalbed methane field within the CBM Contract Area shall be calculated at a fixed annual compound interest rate of 9% per annum.

The PSC is amortised on straight-line basis over the remaining contract terms of 30 years of the PSC.

17. **INTANGIBLE ASSETS *(Continued)***

Set out below is the summary of assets, liabilities, capital commitments and results and other comprehensive income of the CBM business under the PSC included in the consolidated financial statements for both years:

(a) *(Continued)*

	2009	2008
	HK$'000	*HK$'000*
(i) Results for the year		
Revenue	**2,369**	289
Expenses	**(3,570)**	(478)
Amortisation charge of intangible assets (PSC)	**(124,674)**	(10,283)
Deferred taxation	**31,169**	2,571
(ii) Other comprehensive income		
Exchange difference on translation of foreign operation	**16,668**	7,968
(iii) Assets and liabilities		
Intangible assets (PSC) *(note 17)*	**3,618,284**	3,720,726
CBM related plant and machinery	**22,475**	22,695
Current liabilities	**(20,618)**	(3,799)
Non-current liabilities	**–**	(21,725)
Deferred tax liabilities *(note 31)*	**(904,571)**	(930,216)
(iv) Capital commitments		
Contracted but not provided for *(note 34(a))*	**31,425**	20,972
Authorized but not contracted for *(note 34(a))*	**12,010**	17,626

(b) Impairment test on PSC

Management has appointed an independent valuer, BMI Appraisals Limited with relevant experience and qualification, to perform a professional valuation, using the income approach (i.e. cash flow discounting) on the PSC attributable to the Group as at 31 December 2009. Management of the Group has determined that there is no impairment on the PSC as the recoverable amount of PSC, based on value-in-use calculations, as calculated in the valuation report is in excess of the aggregate carrying amount of PSC. The calculation is based on pre-tax cash flow projections prepared from financial budgets approved by management of the Group covering a 12 years period, a discount rate of 17.78% which is pre-tax and reflect specific risk. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the industry. The cash flow projections are prepared based on the expected gross margins determined based management's expectations for the market development.

Based on the above assessment, as at 31 December 2009, management of the Group determined that there is no impairment on the PSC.

(c) The right to use gas pipelines is amortised on a straight-line basis over the useful life of 12 years, which has been reclassified as assets of a disposal group held for sale and separately disclosed as referred to note 12(d) to the financial statements.

18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Loan to a subsidiary *(note (a))*	**2,253,999**	2,253,999
Interests in subsidiaries	**2,253,999**	2,253,999
Amounts due from subsidiaries *(note (b), note (c))*	**487,681**	578,861
Less: Impairment loss *(note (b))*	**(426,605)**	(371,794)
	61,076	207,067
Amounts due to subsidiaries *(note (c))*	**53,338**	32,695

(a) The loan to a subsidiary of HK$2,253,999,000 (2008: HK$2,253,999,000) is unsecured, interest free and will not be demanded for repayment. In the opinion of the directors of the Company, this loan in substance forms part of the Company's investment cost in a subsidiary as its quasi-equity contributions for the acquisition of Merit First Investments Limited (see note (36)).

(b) An allowance for amounts due from subsidiaries of HK$426,605,000 (2008: HK$371,794,000) was recognised as at 31 December 2009 because the related recoverable amounts of the balances due from subsidiaries were estimated to be less than their carrying amounts, after taking into account of the financial position of the subsidiaries.

(c) The amounts due from/to subsidiaries were unsecured, interest-free and repayable on demand.

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(d) Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operation	Proportion of ownership interest: Group's effective holding	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activity
Barraza Company Limited	Hong Kong	100%	–	100%	HK$2	Provision of secretarial services
Ever Double Investments Limited	British Virgin Islands ("BVI")/Hong Kong	100%	100%	–	US$1	Investment holding
Hong Kong Sanxia Gas Investment Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
China Rich Coalbed Methane Group Limited	Hong Kong	100%	100%	–	HK$1	Investment holding
Marvel Time Holdings Limited	BVI	100%	100%	–	US$1	Investment holding
Sanxia Gas (BVI) Investment Limited	BVI	100%	–	100%	US$1	Investment holding
Chongqing Yanyang Natural Gas Company Limited *(note i, iii)*	PRC	100%	–	100%	RMB5,000,000	Distribution of natural gas
Fengjie Three Gorges Wind Natural Gas Company Limited *(note i, iii)*	PRC	100%	–	100%	RMB6,000,000	Distribution of natural gas
Wushan Three Gorges Wind Natural Gas Company Limited *(note i, iii)*	PRC	100%	–	100%	RMB10,000,000	Distribution of natural gas
Yunyang Three Gorges Compressed Natural Gas Company Limited *(note i, iii)*	PRC	100%	–	100%	RMB2,900,000	Distribution of compressed natural gas
Strong Way International Limited	Hong Kong	60%	–	60%	HK$1,000,000	Electronic components trading

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(d) Particulars of the principal subsidiaries are as follows: *(Continued)*

		Proportion of ownership interest				
Name	Place of incorporation/ operation	Group's effective holding	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activity
Nation Rich Investments Limited	BVI	100%	100%	–	US$1	Investment holding
Merit First Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Powerful Sky Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Canada Can-Elite Energy Limited	Canada	100%	–	100%	Can$10,000	Coalbed methane gas exploration and development and exploitation
Goal Reach Investment Limited *(note ii)*	Hong Kong	100%	–	100%	HK$1	Investment holding
Magic Chance Investments Limited *(note ii)*	BVI	100%	100%	–	US$1	Investment holding
Wisedeal Investments Limited *(note ii)*	BVI	100%	100%	–	US$1	Investment holding

Notes:

(i) These companies are wholly-foreign owned enterprises established in the PRC

(ii) Incorporated during the year ended 31 December 2009

(iii) These companies have been classified as disposal group held for sale for the year ended 31 December 2009 (note 12)

19. INTEREST IN AN ASSOCIATE

	The Group and The Company	
	2009	2008
	HK$'000	*HK$'000*
Unlisted shares, at cost	**50**	50
Less: Impairment loss	**(50)**	(50)
	–	–

The associate did not have any material profit or loss for the year or reserve as at 31 December 2009 and 2008.

Particulars of the associate are as follows:

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of attributable equity interest		Principal activity
			2009	2008	
Zhong Hang Yu (H.K.) Limited	Hong Kong	HK$100,000	**50%**	50%	Inactive

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and The Company	
	2009	2008
	HK$'000	*HK$'000*
Club debentures	**2,641**	2,771

21. INVENTORIES

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Finished goods	**–**	110
Spare parts	**–**	915
Construction materials	**–**	1,873
	–	2,898

21. INVENTORIES *(Continued)*

The analysis of the amount of inventories recognised as an expense is as follows:

	2009	2008
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**38,341**	42,265
Write-down of inventories	**62**	3
	38,403	42,268

Inventories with carrying amount of HK$1,062,000 at 31 December 2009 attributable to the disposal group classified as held for sale was reclassified and separately disclosed in note 12(d).

22. TRADE AND OTHER RECEIVABLES

	The Group		**The Company**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**4,689**	5,849	**–**	–
Provision for impairment	**(298)**	(168)	**–**	–
Trade receivables, net	**4,391**	5,681	**–**	–
Other receivables	**6,177**	6,788	**933**	5,820
Deposits and prepayments	**4,674**	4,413	**973**	1,525
	10,851	11,201	**1,906**	7,345
Provision for impairment	**–**	–	**–**	–
	10,851	11,201	**1,906**	7,345
	15,242	16,882	**1,906**	7,345

Trade and other receivables of HK$17,064,000 at 31 December 2009 attributable to a disposal group classified as held for sale were separately reclassified and disclosed in note 12(d).

As of 31 December 2009, trade receivables of HK$298,000 (2008: HK$168,000) were impaired and fully provided for. The individually impaired receivables mainly relate to independent parties for which the recovery is estimated to be remote and unlikely. The other classes within receivables and prepayments do not contain impaired assets.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) The ageing analysis of the trade receivables of the Group, based on the dates of the invoices net of provision for impairment, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Current – within 1 month	**4,278**	4,567
More than 1 month but within 3 months	**38**	937
More than 3 months but within 6 months	**48**	17
More than 6 months	**27**	160
	4,391	5,681

The credit terms granted to trade receivables in respect of sales of electronic components are usually 30 to 90 days. Sales of natural gas and gas connection fees are due upon presentation of payment advice.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**168**	133
Impairment loss recognised	**130**	35
Amount recovered	**–**	–
At 31 December	**298**	168

As at 31 December 2009, the Group's trade receivables of HK$298,000 (2008: HK$ 168,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of HK$130,000 (2008: HK$35,000) were recognised. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade receivables that are not impaired

Receivables that were past due but not impaired 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.

23. AMOUNTS DUE FROM RELATED PARTIES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Chongqing Three Gorges Natural Gas (Group) Limited *(note (a))*	**–**	11,529	**–**	–
Ms. Tan Yinan *(note (a))*	**–**	504	**–**	–
Ms. Tan Yao *(note (a))*	**–**	384	**–**	–
	–	12,417	**–**	–

Note: (a) The above entity is beneficially owned by Mr. Tan Chuanrong, a former director of the gas operating subsidiaries in Mainland China, and was a former director of the Company and resigned on 10 June 2009. Ms. Tan Yinan and Ms. Tan Yao are affiliates of Mr. Tan Chuanrong. The amounts receivable were unsecured, interest free and repayable on demand.

24. CASH AND BANK BALANCES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term deposits	**3,008**	2,274	**–**	–
Cash at bank and in hand	**36,118**	36,583	**32,776**	770
Cash and bank balances included in disposal group held for sale *(note 12(d))*	**9,983**	–	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**49,109**	38,857	**32,776**	770

Cash and bank balances include short-term deposits amounted to HK$3,008,000 (2008: HK$2,274,000), with effective interest rate of 0.04% (2008: 3.4%) per annum and average maturity of about 32 days (2008: 19 days). The short-term bank deposits have been pledged as securities for banking facilities granted to the Group.

25. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
Authorised:		
At 1 January 2008 of HK$0.25 each	10,000,000,000	2,500,000
Increase in authorised share capital *(note a)*	10,000,000,000	2,500,000
At 31 December 2008 and 1 January 2009 of HK$0.25 each	20,000,000,000	5,000,000
Capital reduction *(note b)*	–	(4,800,000)
At 31 December 2009 of HK$0.01 each	20,000,000,000	200,000
Issued and fully paid:		
At 1 January 2008	1,900,434,391	475,109
Issue of new shares for cash *(note c)*	250,000,000	62,500
Acquisition of subsidiaries *(note d)*	800,000,000	200,000
At 31 December 2008 and 1 January 2009	2,950,434,391	737,609
Capital reduction *(note b)*	–	(996,104)
Issue of new shares:		
– upon conversion of convertible bonds *(note e)*	2,990,332,000	317,903
– upon placing of shares *(note f)*	670,000,000	6,700
– upon exercise of bonus warrants *(note g)*	5,488,413	55
At 31 December 2009	6,616,254,804	66,163

(a) Increase in authorised share capital

By an ordinary resolution by the shareholders on 19 November 2008, the authorized share capital of the Company was increased from HK$2,500,000,000 to HK$5,000,000,000, by the creation of 10,000,000,000 new shares of HK$0.25 each.

25. SHARE CAPITAL *(Continued)*

(b) Capital Reduction

On 21 July 2009, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 6 April 2009, the Hong Kong Court of First Instance approved that the nominal value of every issued and unissued share of the Company was reduced from HK$0.25 to HK$0.01 each by cancelling capital paid up or credited as paid up to the extent of HK$0.24 upon each of the shares of the Company. The capital reduction was completed and became effective on 21 July 2009. The credit of HK$996,104,000 arising from the capital reduction was credited to the accumulated losses of the Company (HK$503,932,000) and a special capital reserve (HK$492,172,000) *(note 26(c)(ii))*.

(c) Issue of new shares for cash

On 16 June 2008, pursuant to a subscription agreement dated 6 June 2008, the Company issued a total of 250,000,000 ordinary shares of HK$0.25 each at par, at a price of HK$0.25 per share to an independent third party.

(d) Issue of new shares for acquisition of subsidiary

On 26 November 2008, the Company issued 800,000,000 ordinary shares of HK$0.25 at an issued price of HK$0.25 each as settlement for part of the consideration for the acquisition of the entire issued share capital of Merit First Investments Limited as referred to in note 36. The published closing price of the shares of the Company on 26 November 2008 was HK$0.04 per share.

(e) Issue of new shares upon conversion of convertible bonds

During the year, convertible bonds with principal amount of HK$747,583,000 were converted into 1,200,000,000 ordinary shares of the Company of HK$0.25 each and 1,790,332,000 ordinary shares of the Company of HK$0.01 each, before and after 21 July 2009 when the capital reduction became effective (note (b) above), respectively at a conversion price of HK$0.25 per share.

			Carrying amounts of convertible bonds at conversion		
Conversion date	Nominal value of each share	Principal value of convertible bonds converted	Fair value of embedded derivatives of convertible bonds	Amortised cost of liability portion of convertible bonds	Number of shares issued upon conversion
	HK$	*HK$'000*	*HK$'000*	*HK$'000*	
4 June 2009	0.25	100,000	94,389	32,397	400,000,000
18 June 2009	0.25	100,000	94,434	26,667	400,000,000
23 June 2009	0.25	50,000	47,229	13,492	200,000,000
30 June 2009	0.25	50,000	47,238	12,846	200,000,000
10 August 2009	0.01	100,000	94,614	33,794	400,000,000
11 August 2009	0.01	100,000	94,618	35,350	400,000,000
19 August 2009	0.01	97,583	92,357	28,998	390,332,000
20 August 2009	0.01	40,000	37,859	11,882	160,000,000
23 October 2009	0.01	110,000	104,349	29,334	440,000,000
Total		747,583	707,087	224,760	2,990,332,000
			(note 29)	*(note 29)*	

25. SHARE CAPITAL *(Continued)*

(e) Issue of new shares upon conversion of convertible bonds *(Continued)*

At each of the above conversion dates, the fair value of the embedded derivatives portion of the convertible bonds was determined by the directors of the company based on the valuations conducted by the independent professional valuer, BMI Appraisals Limited, using the binominal options pricing model; the liability component of the convertible bonds is carried at amortised cost using an effective rate of 1.29% (note 29). Upon conversions of the convertible bonds, the carrying amounts of liability portion and fair value of the embedded derivatives portion of the converted bonds were transferred to the share capital of HK$317,903,000 and share premium of HK$613,944,000.

The following key inputs and data were applied to the binominal options model at each conversion of the convertible bonds during the year:

Conversion date	4/6/2009	18/6/2009	25/6/2009	30/6/2009	10/8/2009	11/8/2009	19/8/2009	20/8/2009	23/10/2009
Spot price of the Company's shares	HK$0.128	HK$0.109	HK$0.109	HK$0.105	HK$0.134	HK$0.139	HK$0.121	HK$0.121	HK$0.112
Exercise price of the Company's shares	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25
Risk free rate	1.83%	2.005%	2.108%	1.945%	1.913%	1.862%	1.626%	1.622%	1.483%
Expected life	4.48 years	4.44 years	4.42 years	4.41 years	4.30 years	4.30 years	4.30 years	4.30 years	4.10 years
Expected volatility of the Company's shares	101.9%	102.9%	104.2%	104.4%	102.48%	102.57%	103.01%	103.01%	104.57%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

(f) Issue of new shares upon placing of shares

On 11 September 2009, the Company issued 670,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.103. Net proceeds from such issue amounted to HK$67,278,000 (after offsetting issuing expenses of HK$1,732,000) out of which HK$6,700,000 and HK$60,578,000 were recorded in share capital and share premium, respectively.

(g) Issue of new shares upon exercise of bonus warrants

On 13 November 2009, the Company issued 1,322,153,278 bonus warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders. The holders of bonus warrants are entitled at any time during the period from 13 November 2009 to 12 November 2010 (both dates inclusive) for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). For the year ended 31 December 2009, 5,488,413 new ordinary shares of HK$0.01 each were issued upon the exercise of 5,488,413 units of bonus warrants. As at 31 December 2009, there were 1,316,664,865 (2008:nil) units of bonus warrants outstanding.

All the new shares issued during the year ranked pari passu with the then existing shares in all respects.

26. RESERVES

(a) The Group

	Other reserves									
	Share premium	Capital redemption reserve	Special capital reserve	Other capital reserve	Share option reserve	Investment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (i)	*Note (i)*	*Note (ii)*	*Note (vi)*	*Note (iii)*	*Note (iv)*	*Note (v)*	*Note (vii)*		
At 1 January 2008	201,302	5,318	–	1,805	31,248	949	21,899	3,732	(416,242)	(149,989)
Acquisition of subsidiaries *(note 25(d))*	–	–	–	–	–	–	–	–	(168,000)	(168,000)
Share options forfeited	–	–	–	–	(29,477)	–	–	–	29,477	–
Total comprehensive income for the year	–	–	–	–	–	–	7,941	228	310,439	318,608
Transfer to statutory reserve	–	–	–	–	–	–	–	518	(518)	–
At 31 December 2008 and 1 January 2009	201,302	5,318	–	1,805	1,771	949	29,840	4,478	(244,844)	619
Capital reduction *(note 25(b)* and *note 26(c)(ii))*	–	–	492,172	–	–	–	–	–	503,932	996,104
Issue of new shares:										
– upon conversion of convertible bonds *(note 25(e))*	613,944	–	–	–	–	–	–	–	–	613,944
– upon placing of shares *(note 25(f))*	60,578	–	–	–	–	–	–	–	–	60,578
– upon exercise of bonus warrants *(note 25(g))*	220	–	–	–	–	–	–	–	–	220
Share options forfeited	–	–	–	–	(1,771)	–	–	–	1,771	–
Total comprehensive loss for the year	–	–	–	–	–	–	17,709	–	(580,695)	(562,986)
Transfer to statutory reserve	–	–	–	–	–	–	–	1,692	(1,692)	–
At 31 December 2009	876,044	5,318	492,172	1,805	–	949	47,549	6,170	(321,528)	1,108,479

26. RESERVES *(Continued)*

(b) The Company

	Other reserves							
	Share premium	Capital redemption reserve	Special capital reserve	Share option reserve	Investment reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (i)	*Note (i)*	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*		
At 1 January 2008	201,302	5,318	–	31,248	949	(241)	(434,275)	(195,699)
Acquisition of subsidiaries *(note 25(d), note 36)*	–	–	–	–	–	–	(168,000)	(168,000)
Share options forfeited *(note 27)*	–	–	–	(29,477)	–	–	29,477	–
Total comprehensive loss for the year	–	–	–	–	–	(1,202)	(142,727)	(143,929)
At 31 December 2008 and 1 January 2009	201,302	5,318	–	1,771	949	(1,443)	(715,525)	(507,628)
Capital reduction *(note 25(b)* and *note 26(c)(ii))*	–	–	492,172	–	–	–	503,932	996,104
Issue of new shares								
– upon conversion of convertible bonds *(note 25(e))*	613,944	–	–	–	–	–	–	613,944
– upon placing of shares *(note 25(f))*	60,578	–	–	–	–	–	–	60,578
– upon exercise of bonus warrants *(note 25(g))*	220	–	–	–	–	–	–	220
Share options forfeited *(note 27)*	–	–	–	(1,771)	–	–	1,771	–
Total comprehensive loss for the year	–	–	–	–	–	(215)	(551,669)	(551,884)
At 31 December 2009	876,044	5,318	492,172	–	949	(1,658)	(761,491)	611,334

Pursuant to the reductions in capital of the Company in 2003 ("2003 Capital Reduction") and in 2009 ("2009 Capital Reduction") (note 25(b)), the Company has undertaken that in the event of its making any future recoveries in respect of the provisions against certain specific subsidiaries as at 31 December 2002 and 2008, respectively, all such recoveries up to maximum amounts of HK$367,938,293, in relation to 2003 Capital Reduction and HK$130,663,000, in relation to 2009 Capital Reduction, will be credited to a special capital reserve of the Company, which shall not be treated as realised profits for the purpose of section 79B of the Hong Kong Companies Ordinance and shall be treated as an undistributable reserve of the Company for the purpose of section 79C of the Hong Kong Companies Ordinance.

At 31 December 2009 and 2008, no credit transfer to this special capital reserve was made by the Company as there were no recoveries in respect of these provisions against certain specific subsidiaries at 2009 and 2008.

26. RESERVES *(Continued)*

(c) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Special capital reserve

Pursuant to the reduction in capital of the Company (note 25 (b)) (“2009 Capital Reduction”), the amount of HK$492,172,000, by which the capital reduction exceeds the total accumulated losses of permanent nature of the Company as at 31 December 2008, has been credited to a special capital reserve of the Company which shall not be treated as realised profits for the purposes of section 79B of the Hong Kong Companies Ordinance and shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance.

(iii) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 27.

The balance of this reserve was transferred to the accumulated losses as an equity movement when the attributable share options were waived by eligible participants during the year ended 31 December 2009 and 2008.

(iv) Investment reserve

The investment reserve has been set up and is dealt with in accordance with accounting policy adopted for available-for-sale financial assets in note 2(g).

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and foreign operations. The reserve is dealt with in accordance with the accounting policies in note 2 (v).

(vi) Other capital reserve

This balance represents negative goodwill on acquisition of an associated company in 2000.

26. RESERVES *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(vii) Statutory reserves

Transfers from 10% of net profits to statutory reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into paid-up capital provided that the balance of the statutory reserve fund after such conversion is not less than 25% of their registered capital.

The Company's subsidiaries in the PRC are required to transfer a minimum of 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve fund until the reserve balance reaches 50% of the registered capital. The transfer of this fund must be made before distribution of dividends to equity holders.

(d) Distributable reserves

As at 31 December 2009 and 2008, there were no distributable reserves available for distribution to equity shareholders of the Company.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

26. RESERVES *(Continued)*

(e) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2009 and 2008 was as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Bank loans	**–**	26,004
Other borrowings	**20,618**	45,524
Finance lease obligations	**–**	958
Convertible bonds	**1,417,515**	2,024,304
Promissory note	**202,861**	160,154
Less: Cash and cash equivalents	**(39,126)**	(38,857)
Net debt from continuing operations	**1,601,868**	2,218,087
Bank loans	**16,499**	–
Other borrowings	**569**	–
Less: Cash and cash equivalents	**(9,983)**	–
Net debt from discontinued operation and disposal group held for sale *(note 12)*	**7,085**	–
Total net debt	**1,608,953**	2,218,087
Total equity	**1,174,642**	738,228
Adjusted capital	**2,783,595**	2,956,315
Net debt-to-adjusted capital	**57.80%**	75.03%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

New Alexander Limited, the holder of the Company's convertible bonds (note 29) and the promissory note (note 30), has agreed to provide continual financial support as is necessary to enable the Group to meet its debts as and when they fall due in the foreseeable future.

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") approved by the shareholders on 29 December 2004, under which the directors of the Company may, at their discretion, offer any eligible participants (including any directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. For each lot of the share options granted, the participants will pay a nominal consideration of HK$1. The period within which the shares must be exercised under an option is determined by the board of directors of the Company from time to time, except that such period shall not expire more than ten years from the date of grant of the options.

27. SHARE OPTION SCHEME *(Continued)*

Movements in the number of share options outstanding during the year are as follows:

	Number of share options 2009	2008
At beginning of the year	**13,730,000**	187,210,000
Share options granted *(note e)*	**–**	–
Share options forfeited *(note a)*	**(12,930,000)**	(173,480,000)
Share options exercised *(note e)*	**–**	–
Share options lapsed *(note b)*	**(800,000)**	–
At end of the year *(note c)*	**–**	13,730,000

(a) Share options forfeited

Exercisable period	Exercise price *HK$*	Number of share option 2009	Number of share options 2008
1 April 2007 to 29 February 2012	0.2620	**2,600,000**	3,230,000
19 August 2007 to 18 July 2012	0.4550	**–**	127,230,000
8 April 2006 to 7 March 2011	0.2648	**1,830,000**	–
1 July 2006 to 31 May 2011	0.2900	**8,500,000**	43,020,000
		12,930,000	173,480,000

(b) Share options lapsed

Exercisable period	Exercise price *HK$*	Number of share option 2009	Number of share options 2008
27 October 2005 to 26 September 2010	0.2520	**800,000**	–

27. **SHARE OPTION SCHEME** ***(Continued)***

(c) Outstanding options

Exercisable period	Exercise price *HK$*	Number of share options 2008
Directors		
8 April 2006 to 7 March 2011	0.2648	1,830,000
Employees		
27 October 2005 to 26 September 2010	0.2500	800,000
1 July 2006 to 31 May 2011	0.2900	8,500,000
1 April 2007 to 29 February 2012	0.2620	2,600,000
		13,730,000

There were no outstanding options at 31 December 2009, as all these options were forfeited or lapsed during the year ended 31 December 2009.

(d) Fair value of options and assumptions

The fair value of the options granted and vested during the year ended 31 December 2007 was HK$23,879,000, as determined using the Black-Scholes valuation model, at their respective dates of grant. The significant inputs into the model were share price of HK$0.255 and HK$0.445 at the respective date of granting the options, respective exercise price of HK$0.262 and HK$0.455 per share, expected life of the options of 2 to 3 years, expected dividend paid out rate of zero and annual risk-free interest rate of 3.93% to 4.27%. The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the last three years.

(e) No share options were granted and exercised during the two years ended 31 December 2008 and 2009.

28. BORROWINGS

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Bank loans *(note (d))*	**–**	26,004
Other borrowings, unsecured	**–**	–
– A former substantial shareholder *(note (a))*	**–**	20,000
– Other creditor *(note (b))*	**20,618**	25,524
Finance lease obligations	**–**	958
	20,618	72,486
Current portion included in current liabilities		
Bank loans	**–**	20,351
Other borrowings, unsecured	**20,618**	23,799
Finance lease obligations	**–**	187
	20,618	44,337
Non-current liabilities		
Bank loans	**–**	5,653
Other borrowings, unsecured	**–**	21,725
Finance lease obligations	**–**	771
	–	28,149
	20,618	72,486

	The Company	
	2009	2008
	HK$'000	*HK$'000*
Current portion included in current liabilities		
Other borrowings, unsecured *(note (a))*	**–**	20,000

(a) This balance was payable to Proud City Investments Limited, a former substantial shareholder of the Company, which was unsecured, interest free and was fully repaid during the year ended 31 December 2009.

28. BORROWINGS *(Continued)*

(b) This other borrowing, related to the CBM business under the PSC (note 17), was payable to an independent third party, unsecured and with no fixed repayment terms. On 29 April 2010, the Group entered into an agreement with China United (a joint venture partner under PSC as referred to note 17) and this third party lender, pursuant to which this other borrowing was restructured, with retrospective effect from 1 April 2008, as bearing no interest (note 39(a)).

(c) The maturity of the borrowings of the Group is as follows:

			Finance lease	
	Bank loans	Other borrowings	Present value	Minimum lease payment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note d)			
At 31 December 2009				
2010	**–**	**20,618**	**–**	**–**
2011	**–**	**–**	**–**	**–**
2012	**–**	**–**	**–**	**–**
2013	**–**	**–**	**–**	**–**
2014	**–**	**–**	**–**	**–**
2015	**–**	**–**	**–**	**–**
2016	**–**	**–**	**–**	**–**
	–	**20,618**	**–**	**–**
At 31 December 2008				
2009	20,351	23,799	187	258
2010	5,653	3,799	771	885
2011	–	3,799	–	–
2012	–	3,799	–	–
2013	–	3,799	–	–
2014	–	3,799	–	–
2015	–	2,730	–	–
	26,004	45,524	958	1,143

28. BORROWINGS *(Continued)*

(d) At 31 December 2009, bank loans amounted to HK$16,499,000 (2008: HK$26,004,000) were used for financing the operations of Chongqing Natural Gas Companies which were classified as a discontinued operation and disposal group held for sale as at 31 December 2009 (note 12(d)).

At 31 December 2009, bank loans amounting to HK$14,224,000 (2008: HK$22,612,000) were secured by the right to collect revenue on sales of natural gas of the gas operating subsidiaries, which were reclassified as liabilities of disposal group classified as held for sale in note 12(g) to the financial statements.

29. CONVERTIBLE BONDS

On 26 November 2008, the Company issued convertible bonds with an aggregated principle amount of HK$2,000,000,000 with a term of five years as settlement of part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited as referred to note 36 to the financial statements. The bonds are unsecured and carry zero coupon interest rate. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 (subject to adjustments) per conversion share at any time during the period commencing from the date of issue of convertible bonds. Upon the issue of bonus warrants on 13 November 2009 as detailed in note 25(g), the conversion price of the convertible bonds has been changed from HK$0.25 to HK$0.23 each with effect on 13 November 2009.

As the functional currency of the Company is Renminbi, the conversion option of the convertible bonds denominated in Hong Kong dollars will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss.

At the initial recognition on 26 November 2008 which was the issue date of the convertible bonds, the fair value of the embedded derivatives portion of the convertible bonds were determined by an independent professional valuer, Asset Appraisal Limited, using the binominal options pricing model; the liability component of the convertible bonds at the issue date is the residual amount after recognising the fair value of the embedded derivatives and subsequently carried at amortised cost using an effective interest rate of 1.29% per annum.

At each of the balance sheet date, the fair value of the embedded derivatives portion of the convertible bonds were revalued by an independent professional valuer, BMI Appraisals Limited (2008: Asset Appraisal Limited), using the binominal options pricing model, and the change in the fair value of the embedded derivatives of HK$304,332,000 (2008: HK$21,983,000) was charged to the consolidated income statement for the year. Implicit interest is accrued on the liability component of the convertible bonds using the effective interest method by applying the effective interest rate of 1.29% per annum.

29. CONVERTIBLE BONDS *(Continued)*

The fair value of the embedded derivatives portion of the convertible bonds which was determined by the independent professional valuer using the binominal options pricing model at the date of issue and at the end of reporting period, based on the following key inputs and data:

	26/11/2008*	31/12/2008*	**31/12/2009****
Spot price of the Company's shares	HK$0.04	HK$0.045	**HK$0.079**
Exercise price of the Company's shares	HK$0.25	HK$0.25	**HK$0.23**
Risk free rate *(note)*	1.441%	1.194%	**1.542%**
Expected life	5 years	4.9 years	**3.9 years**
Expected volatility of the Company's shares	91.43%	92.26%	**104.84%**
Expected dividend yield	0%	0%	**0%**

Note: The risk-free rate was determined with reference to the yield of the Hong Kong Exchange Fund notes with duration similar to the expected life of the conversion options.

* valuation performed by Asset Appraisal Limited

** valuation performed by BMI Appraisals Limited

The movements of the embedded derivatives portion (at fair value) and liability portion (at amortised cost) of the convertible bonds are as follows:

	The Group and Company		
	Embedded derivatives portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Principal value of convertible bonds on the date of issue	124,970	1,875,030	2,000,000
Imputed interest amortised charged to consolidated income statement	–	2,321	2,321
Increase in fair value charged to consolidated income statement	21,983	–	21,983
Carrying amount of convertible bonds (with principal value of HK$2,000,000,000) as at 31 December 2008 and 1 January 2009	146,953	1,877,351	2,024,304
Imputed interest amortised charged to consolidated income statement	–	20,726	20,726
Increase in fair value charged to consolidated income statement	304,332	–	304,332
Conversion into new shares *(note 25 (e))*	(224,760)	(707,087)	(931,847)
Carrying amount of convertible bonds (with principal value of HK$1,252,417,000) as at 31 December 2009	226,525	1,190,990	1,417,515

30. PROMISSORY NOTE

On 26 November 2008, the Company issued HK$240,000,000 unsecured redeemable promissory note as settlement for part of the consideration for with the acquisition of the 100% equity interest in Merit First Investments Limited (see note (36)). The promissory note is repayable in one lump sum on maturity of 1.5 years i.e. 26 May 2010. The promissory note bears zero coupon rate. The Company has the right to redeem the promissory note prior to the maturity date by serving a written notice to the note-holder which is New Alexander Limited at 31 December 2009 (2008: Proud City Investments Limited). The fair value of promissory note at the issue date was approximately HK$155,457,000 (see note 36), based on the independent valuation performed by Asset Appraisal Limited, a firm of independent professional valuers. The effective interest rate of the promissory note was determined to be 33% per annum at the issue date on 26 November 2008, with reference to the similar instruments in the market. The promissory note is carried at amortised cost using the effective interest rate of 33% per annum, until extinguishment on redemption or maturity. On 18 August 2009, a portion of the promissory note with a principal amount of HK$12,417,000 and carrying amount at amortised cost of HK$9,583,000 was used by the note holder to off-set the same amount due to the Company.

Based on a supplemental agreement dated 21 April 2010, the promissory note with principal value of HK$160,000,000 has been restructured with an extended maturity from 26 May 2010 to 26 May 2011. The promissory note with principal value of HK$67,583,000 and carrying value at amortised cost of HK$60,241,000 at 31 December 2009 was subsequently redeemed by the Company on 20 January 2010 and 27 April 2010, which has been classified under current liabilities in the statement of financial position of the Group and Company at 31 December 2009.

The movements of the promissory note carried at amortised cost are set out below:

	The Group and the Company	
	2009	2008
	HK$'000	*HK$'000*
At 1 January	**160,154**	–
Promissory note on issue date	**–**	155,457
Imputed interest accrued and charged to the income statement for the year	**52,290**	4,697
Early redemption	**(9,583)**	–
At 31 December	**202,861**	160,154
Amounts classified under following categories in statement of financial position:		
Non-current liabilities	**142,620**	160,154
Current liabilities	**60,241**	–
	202,861	160,154

31. DEFERRED TAXATION

The Group

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**935,360**	5,506
Acquisition of subsidiaries *(note 36)*	**–**	935,300
Credited to consolidated income statement	**(31,169)**	(3,223)
Deferred liabilities of a disposal group classified as held for sale *(note 12(d))*	**(5,211)**	–
Exchange adjustments	**5,591**	(2,223)
At 31 December	**904,571**	935,360

The movements in deferred taxation liabilities of the Group prior to offsetting of balances within same jurisdiction during the year are as follows:

	Temporary differences on national gas connection fees	**Fair value adjustments on business combinations** *(note 36)*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	4,921	585	5,506
Effect of fair value gain on the PSC upon acquisition of subsidiaries *(note (36))*	–	935,300	935,300
Credit to consolidated income statement *(note (11))*	(652)	(2,571)	(3,223)
Exchange adjustments	290	(2,513)	(2,223)
At 31 December 2008 and 1 January 2009	4,559	930,801	935,360
Credit to consolidated income statement *(note (11))*	–	(31,169)	(31,169)
Classified as liability of a disposal held for sale *(note 12(d))*	(4,586)	(625)	(5,211)
Exchange adjustments	27	5,564	5,591
At 31 December 2009	–	904,571	904,571

31. **DEFERRED TAXATION** ***(Continued)***

Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to profits earned by the Company's PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets of the Group and the Company amounting to HK$21,960,000 (2008: HK$16,086,000) and HK$19,442,000 (2008: HK$13,918,000), respectively, arising from unused tax losses have not been recognised in the financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

32. **TRADE AND OTHER PAYABLES**

	The Group		**The Company**	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**11,825**	12,916	**–**	–
Other payables	**14,925**	31,989	**445**	1,458
Accrued operating expenses	**2,342**	4,942	**1,730**	3,437
	29,092	49,847	**2,175**	4,895

The ageing analysis of the trade payables of the Group, based on the dates of the invoices, is as follows:

	2009	2008
	HK$'000	*HK$'000*
Current – within 1 month	**4,147**	7,831
More than 1 month but within 3 months	**6,009**	2,891
More than 3 months but within 6 months	**1,267**	647
More than 6 months	**402**	1,547
	11,825	12,916

33. AMOUNTS DUE TO RELATED PARTIES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Directors				
Mr. Tong Nai Kan	**–**	1,399	**–**	1,399
Mr. Tan Chuanrong	**–**	380	**–**	–
	–	1,779	**–**	1,399

All amounts payable were unsecured, interest free and had no fixed repayment terms.

Mr. Tan Chuanrong was a former director of the Company who was retired at the Company's annual general meeting on 10 June 2009 and Chongqing Three Gorges Natural Gas (Group) Limited is beneficially owned by Mr. Tan Chuanrong.

34. COMMITMENTS

(a) Capital commitments

Capital commitments in respect of the coalbed methane exploration and exploitation under the production sharing contract as at 31 December 2009 not provided for in the financial statements were as follows:

The Group

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Authorised but not contracted for		
– Production sharing contract	**12,010**	17,626
Contracted but not provided for		
– Production sharing contract	**31,425**	20,972
– Other property, plant and equipment	**5,883**	–
	49,318	38,598

There were no material commitments for the discontinued operation and disposal group held for sale as referred to note 12(f) to the financial statements.

The Company does not have any material capital commitments at 31 December 2009 and 2008.

34. COMMITMENTS *(Continued)*

(b) Operating lease commitments

At 31 December 2009, the total minimum lease payments of the Group in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Within 1 year	**1,388**	6,493
After 1 year but within 5 years	**363**	3,865
After 5 years	**–**	–
	1,751	10,358

Details of the operating lease commitments for the discontinued operation and disposal group held for sale are referred to note in 12(f) to the financial statements.

The Company does not have any material lease commitments at 31 December 2009 and 2008.

35. CONTINGENT LIABILITIES

(a) There is a dispute between Mr. Tan Chuanrong ("Mr Tan"), the former beneficial owner of the Chongqing Natural Gas Companies, and Marvel Time Holdings Limited ("Marvel Time"), a wholly-owned subsidiary of the Company and immediate holding company of Sanxia Gas. In or about December 2009, Mr. Tan expressed his intention to exercise the first right to purchase (the "First Right to Purchase") the entire issued capital of Sanxia Gas at a consideration of RMB50 million (approximately HK$56,876,000) in writing, which is the same as that offered by an independent third party in a conditional sale and purchase agreement entered into between the said third party and Marvel Time on 2 December 2009 but subsequently terminated on 29 December 2009. Mr. Tan's First Right to Purchase was contained, amongst other terms and conditions, in the agreement dated 12 April 2006 (as supplemented by another agreement dated 27 April 2006) (collectively "2006 Original Agreement") relating to the Group's acquisition of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies, from Mr. Tan. The First Right to Purchase, which was irrevocable, would be valid for 7 years after the completion of the 2006 Original Agreement. Mr. Tan was a former director of the Company who was retired and ceased to be a director of the Company at its annual general meeting held on 10 June 2009. When Mr. Tan purported to exercise the First Right of Purchase in December 2009, Mr. Tan should be deemed to be a connected party of the Company under Rule 14A of the Listing Rules. Up to the date of this report, the Company and Mr. Tan have not yet reached an agreement on the conditions precedent relating to the sale of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies. On 19 April 2010, Mr. Tan served a writ of summons, together with an indorsement of claim, against the Company and Marvel Time for (i) specific performance of 2006 Original Agreement to effect the sale of the entire interest of Sanxia Gas to Mr. Tan; (ii) damages in lieu of or in addition to specific performance; (iii) interest and costs arising. The directors of the Company have sought legal advice that the Group has a strong case in defending any legal actions to be taken by Mr. Tan to the effect that the sale of Sanxia Gas, if to take place, shall be subject to those conditions precedent in accordance with the requirements of the Listing Rules.

35. CONTINGENT LIABILITIES *(Continued)*

(b) Environmental Contingencies

The Group has not incurred any significant expenditure for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants irrespective of whether they are operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future costs is not determinable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material.

(c) The contingencies of the disposal group held for sale are disclosed in note 12(e) to the financial statements.

36. BUSINESS COMBINATION – 2008

On 26 November 2008, the Group acquired 100% of the issued share capital of Merit First Investments Limited ("Merit First") for a consideration which was satisfied by (i) HK$60,000,000 in cash; (ii) 800,000,000 new shares with a nominal value of HK$0.25 each; (iii) HK$2,000,000,000 convertible bonds and (iv) HK$240,000,000 promissory note issued by the Company. This acquisition had been accounted for using the purchase method. The amount of discount on acquisition was approximately HK$545,470,000 at the acquisition had been credited to the consolidated income statement for the year ended 31 December 2008 (see below).

Through the acquisition of Merit First, the Group has obtained 100% equity interest in Can-Elite, which is engaged in the exploration and exploitation of CBM in Auhui, the PRC (collectively referred to as the "Merit First Group"). As the acquisition date, the CBM business has been in operation jointly by Can-Elite and China United with 7 wells extracting CBM products supplied to an independent third party customer near the CBM Contract Area.

36. BUSINESS COMBINATION – 2008 *(Continued)*

The directors of the Company were of the opinion that the acquiree's assets and liabilities approximated their fair values. The net assets acquired in the transaction and the discount of acquisition arising were as follows:

	Acquirees' carrying amount before business combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Intangible assets – PSC *(note 17)*	–	3,741,200	3,741,200
Property, plant and equipment	23,136	–	23,136
Debtors and prepayments	276	–	276
Cash and bank balances	46	–	46
Other payables	(29,230)	–	(29,230)
Deferred tax liabilities *(note 31)*	–	(935,300)	(935,300)
	(5,772)	2,805,900	2,800,128
Discount on acquisition of subsidiaries			(545,470)
Total costs of acquisition			2,254,658
Total consideration satisfied by:			
– Cash paid			60,000
– Shares of the Company – at fair value			32,000
– Promissory note – at fair value *(note 30)*			155,457
– Convertible bonds- at fair value *(note 29)*			2,000,000
			2,247,457
– Direct expenses related to the acquisition			7,201
Total costs of acquisition			2,254,658

	HK$'000
Net cash outflow arising on acquisition:	
Consideration paid in cash	60,000
Cash and bank balances acquired	(46)
Direct expenses related to the acquisition	7,201
	67,155

36. BUSINESS COMBINATION – 2008 *(Continued)*

An independent valuation on the PSC was performed by BMI Appraisals Limited, a firm of professional qualified valuers, to determine the fair value of the PSC on 26 November 2008. That calculation used cash flow projections during the useful life of the PSC i.e 30 years and a discount rate of 17.95%. The key assumptions for the value in use calculation related to the estimated gas reserves and the estimated prices of CBM. The fair value of HK$3,741,200,000 was estimated for PSC on 26 November 2008 on the basis of the valuation by BMI Appraisals Limited with reference to a technical report on the assessment of CBM reserves issued by Netherland, Sewell & Associates, Inc. Both BMI Appraisals Limited and Netherland, Sewell & Associates Inc. are independent of the Group and its management.

The fair value of the 800,000,000 ordinary shares of the Company issued as part of the consideration was determined with reference to the closing market share price of HK$0.04 each of the Company' shares at the date of exchange amounted to HK$32,000,000 of which HK$200,000,000 was credited to the share capital and HK$168,000,000 was debited to accumulated losses.

In the opinion of the directors of the Company, the discount on acquisition of the CBM business of Merit First Group represented (i) an intended discount provided by the relevant PRC authorities to attract foreign investor to engage in encouraged foreign investment projects, i.e. introduction of the foreign investments, advanced technology and experiences to the PRC clean energy business, which was previously operated by state-owned enterprises, lead to the improvement of the corporate governance standard and to increase the operational effectiveness; and (ii) the decrease in the fair value of the shares of the Company issued between the agreement date and the date of exchange.

If the acquisition had been completed on 1 January 2008, total revenue and profit of the Group for the year ended 31 December 2008 would have been HK$140,926,000 and HK$240,255,000. The proforma information was for illustrative purposes only and was not necessarily an indication of revenue and result of the Group that would actually have been achieved had the acquisition been completed on 1 January 2008, nor was it intended to be a projection of future results.

37. DISPOSAL OF SUBSIDIARIES – 2009

During the year ended 31 December 2009, the Group disposed of the entire equity interests in New Smart Property Investment Limited and its subsidiaries (together the "New Smart Property Investment Group"), for a cash consideration of HK$1, to an independent third party.

The net liabilities of New Smart Property Investment Group at the date of disposal were as follows:

	2009
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	**2,918**
Other receivables	**1,281**
Cash and bank balances	**136**
Other payables and accruals	**(5,552)**
Finance leases obligations	**(1,875)**
Net liabilities disposal of	**(3,092)**
Gain on disposal of subsidiaries	**3,092**
Total consideration	**–**
Net cash outflow arising on disposal:	
Cash received	**–**
Cash and bank balances disposed of	**(136)**
	(136)

The impact of New Smart Property Investment Group's results and cash flows in the current and prior periods were insignificant.

38. MATERIAL RELATED PARTY TRANSACTIONS

Other than the balances disclosed in notes 23 and 33 to the financial statements, the Group had the following material related party transactions.

Key management personnel compensation

	2009	2008
	HK$'000	*HK$'000*
Short-term employees benefits	**11,587**	7,734
Post-employment benefits	**64**	36
	11,651	7,770

Total remuneration is included in "staff costs" (see note 9).

39. EVENTS AFTER THE REPORTING PERIOD

(a) On 13 January 2010, the Company completed the share placement of 1,300,000,000 new ordinary shares of HK$0.01 each at the placing price of HK$0.061 per share, with net proceeds of approximately of HK$76 million were raised of which HK$67,583,000 was used for the partial redemption of the promissory note (note (b) below) and the general working capital of the Group.

(b) On 20 January 2010 and 27 April 2010, a portion of promissory note with aggregate principal value of HK$67,583,000, that is carried at amortised cost of HK$60,241,000 at 31 December 2009, was redeemed.

(c) On 21 April 2010, the Company entered into a supplemental agreement with the promissory note holder pursuant to which the maturity of the promissory note with a principal value of HK$160,000,000, which was carried at amortised cost of HK$142,620,000 at 31 December 2009 (note 30), has been subsequently extended for an additional period of 12 months from 26 May 2010 to 26 May 2011.

39. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(d) On 29 April 2010, Can-Elite and China United under the PSC (note 17), entered into an agreement with 淮北礦業(集團)有限責任公司, an independent third party. At 31 December 2009, there was approximately HK$29,454,000 (RMB25,893,000) payable by Can-Elite and China United under the PSC to 淮北礦業(集團)有限責任公司, of which Can-Elite shares approximately HK$20,618,000 (RMB18,125,000) under the PSC, for financing of those relevant plant and equipment and related facilities installed for existing seven CBM gas wells inside the CBM Area. Pursuant to this agreement,

(i) 淮北礦業(集團)有限責任公司has been appointed to manage the operations of the seven CBM gas wells at the annual management fee of RMB1,400,000 which covers all the running costs and maintenance costs of the designated seven gas wells inside the CBM Area;

(ii) 淮北礦業(集團)有限責任公司has agreed not to charge any interest bearing on the debt owed by Can-Elite and China United with retrospective effect from 1 April 2008 when the PSC became effective and thus, 淮北礦業(集團)有限責任公司has implicitly agreed to waive all accrued interests of approximately HK$6,834,000 (RMB6,008,000) due by Can-elite and China United at 31 December 2008, of which Can-Elite shares approximately HK$4,784,000 (RMB4,206,000) based on the PSC (note 30);

(iii) Can-Elite and China United has agreed to sell the CBM products generated from the designated seven CBM gas wells to 淮北礦業(集團)有限責任公司at a price with a discount of 20% and the revenue receivable from 淮北礦業(集團)有限責任公司shall be applied to deduct against the debt balance owing to 淮北礦業(集團)有限責任公司during the period until this debt balance is reduced to zero.

The waived accrued interests of HK$4,784,000, which Can-Elite shares under the PSC, has been deferred and included in "other payables" so as to be amortised and matched with the future discount on sales of the CBM products to be generated from the designated CBM gas wells.

(e) Subsequent to 31 December 2009 and up to date of approval for these financial statements, 138,844,448 new ordinary shares of HK$0.01 each were issued upon the exercise of 138,844,448 units of bonus warrants and net proceeds of approximately of HK$6,942,000 were raised and used for the general working capital of the Group.

(f) On 9 April 2010, convertible bonds with principal amount of HK$90,000,000, that are carried with fair value of embedded derivative portion of HK$16,278,000 and liability portion of HK$85,586,000 at 31 December 2009, were converted into 391,304,347 shares of the Company of HK$0.01 each at a conversion price of HK$0.23 per share.

40. COMPARATIVE FIGURES

As a result of the application of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

	2009	2008	2007	2006	2005
		(restated)	(restated)	(restated)	(restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Continuing operations:					
Revenues	**45,576**	49,323	59,458	77,174	76,692
Profit/(loss) before taxation	**(540,107)**	471,509	(226,033)	(39,774)	(33,990)
Income tax credit/(charge)	**31,169**	2,571	–	63	453
(Loss)/profit for the year from continuing operations	**(508,938)**	474,080	(226,033)	(39,711)	(33,537)
(Loss)/profit for the year from discontinued operations, net	**(71,757)**	(163,641)	24,463	11,503	–
(Loss)/profit for the year	**(580,695)**	310,439	(201,570)	(28,208)	(33,537)
Other comprehensive income for the year	**17,709**	8,169	16,133	5,325	(97)
Total comprehensive income for the year	**(562,986)**	318,608	(185,437)	(22,883)	(33,634)
(Loss)/profit for the year attributable to:					
Owner of the Company	**(580,695)**	310,439	(201,547)	(28,208)	(33,537)
Minority interests	**–**	–	(23)	–	–
	(580,695)	310,439	(201,570)	(28,208)	(33,537)
Assets and liabilities					
Total assets	**3,795,040**	3,983,270	413,203	387,607	31,643
Total liabilities	**(2,620,398)**	(3,245,042)	(88,083)	(251,080)	(43,243)
Total equity	**1,174,642**	738,228	325,120	136,527	(11,600)