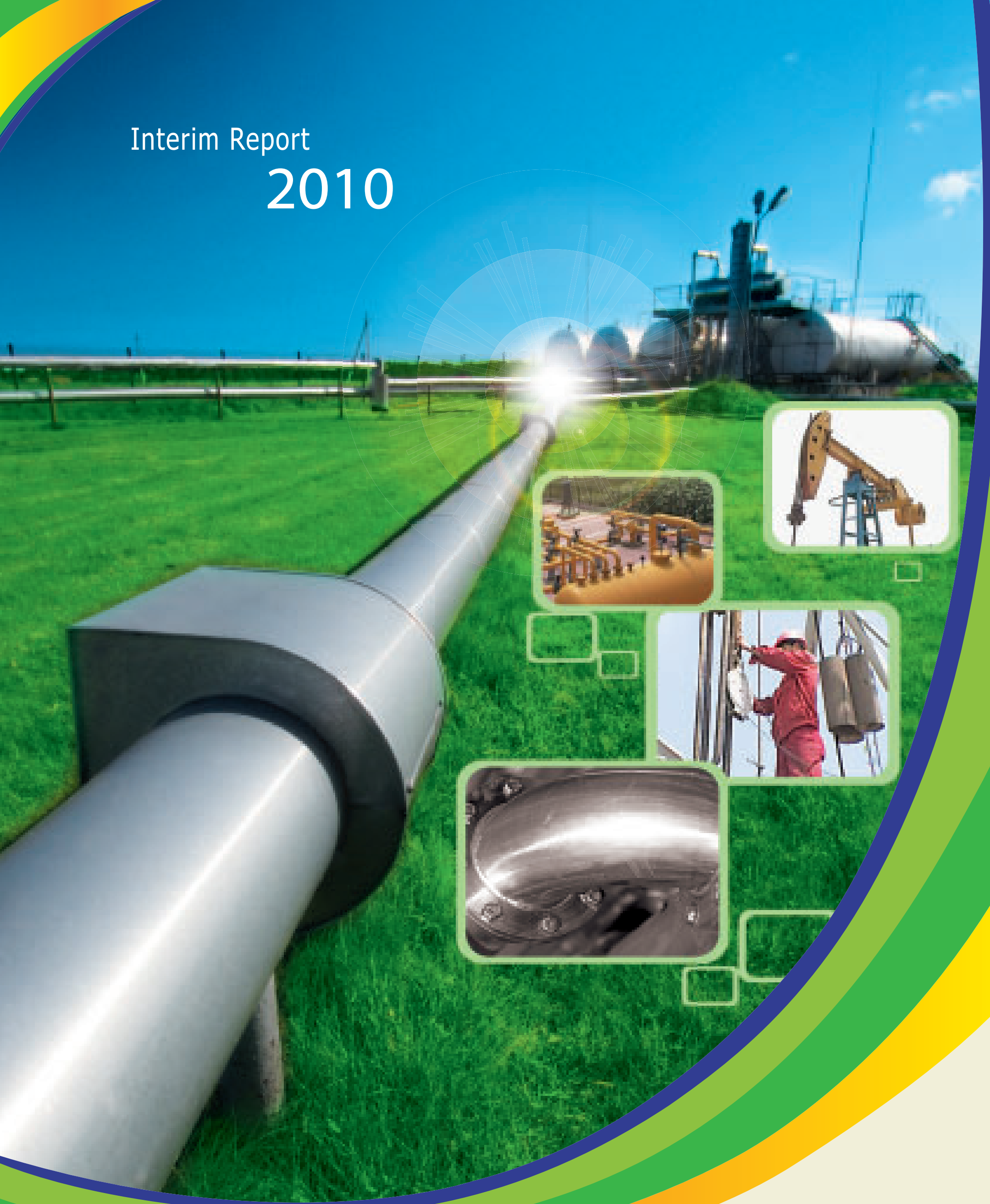
Interim Report 2010



New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

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

The Board of Directors (the "Board" or "Directors") of New Smart Energy Group Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 (the "Period").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover of continuing operations for the Period was HK$23,236,000 (2009: HK$20,388,000), representing an increase of 13.97%. Such increase of turnover was mainly due to a 11.95% increase of revenues generated by the sale of electronic components, from HK$19,592,000 in 2009 to HK$21,933,000 in 2010, representing 94.39% of the Group's turnover. The Coalbed Methane ("CBM") exploration and exploitation operating subsidiary ("CBM Operating Subsidiary") contributed HK$1,303,000 (2009: HK$796,000) to the Group in 2010, representing 5.61% of the Group's turnover. The Group's gross profit from continuing operations increased by 32.56% to HK$3,823,000 from HK$2,884,000 in 2009.

The Group's profit from continuing operations for the Period was HK$47,797,000 (2009: loss of HK$479,706,000). Substantial part of Group's profit was mainly due to the accounting treatments of various items, such as amortization of the Production Sharing Contract ("PSC") amounted to HK$62,737,000 (2009: HK$62,297,000), net gain on restructure of promissory notes amounted to HK$9,551,000 (2009: nil), fair value change of financial assets at fair value through profit and loss amounted to HK216,000 (2009: nil), fair value decrease on convertible bonds' embedded derivatives amounted to HK$128,478,000 (2009: increase of HK$375,228,000), embedded interest on promissory notes amounted to HK$19,103,000 (2009: HK$26,792,000) and convertible bonds amounted to HK$7,411,000 (2009: HK$12,052,000) and deferred tax income amounted to HK$15,684,000 (2009: HK$15,574,000). The aggregate net result of the abovementioned accounting profit for 2010 was HK$64,246,000 (2009: loss of HK$460,795,000).

For comparison purpose, the loss after tax from continuing operations for 2010 and 2009 respectively, if excluding those accounting profit and loss, were HK$16,449,000 and HK$18,911,000 respectively. The moderate decrease in loss of 13.02% was mainly due to higher gross profit margin from CBM business, increased from 30.28% in 2009 to 57.17% in 2010 and a slight decrease of administrative expenses.

The Board was of the opinion that the accounting profit and loss mentioned above shall not have actual impact on the cashflow position of the Group.

The Group recorded a profit attributable to shareholders of the Group was approximately HK$47,797,000 (2009: loss of HK$479,247,000). The basic and diluted earnings per share from continuing and discontinued operations was HK0.59 cents (2009: loss of HK16.12 cents). The Directors do not recommend the payment of dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had current assets of HK$154,483,000 (31 December 2009: HK$151,485,000) and current liabilities of HK$238,383,000 (31 December 2009: HK$155,692,000) and cash and bank balance of HK$37,007,000 (31 December 2009: HK$39,126,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 64.80% (31 December 2009: 97.30%). The maturity of promissory notes leads to a significant drop of current ratio.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 48.07% (31 December 2009: 57.80%). Net debt is calculated as total borrowings, less cash and cash equivalents, from continuing and discontinued operations. Total capital is calculated as equity, as shown in the condensed consolidated statement of financial position, plus net debt.

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. The net proceeds of approximately of HK$76 million raised, were used for the partial redemption of the promissory notes and the general working capital of the Group.

On 20 January 2010 and 27 April 2010, a portion of promissory notes with principal value of HK$67,583,000 were redeemed.

On 9 April 2010, convertible bonds with principal amount of HK$90,000,000, that were carried with embedded derivatives portion of HK$14,685,000 and liability portion of HK$85,889,000, 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.

In the Period, 334,511,632 new ordinary shares of HK$0.01 each were issued upon the exercise of 334,511,632 units of bonus warrants and net proceeds of approximately of HK$16,725,000 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 Period 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 21.

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 notes 7(e) and 22, the Group had no other contingent liabilities as at 30 June 2010.

LITIGATION

(1) On 15 March 2009, 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) to 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**"), among others, in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges. 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 on 28 August 2009.

According to the advice of the PRC legal advisor of the Company ("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 held on 10 June 2010 and there was no judgment received from the Court as at this report date.

The Company has been advised by its PRC lawyer that it has grounds to resist the petition and the Group's exposure is remote.

(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 Company and Marvel Time filed an acknowledgement of service of the writ of summons on 29 April 2010. A Statement of Claim was served on the Company and Marvel Time on 8 June 2010 by Mr. Tan and the Company and Marvel Time filed its defence on 6 July 2010.

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 Period.

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).

In the Period, 334,511,632 new ordinary shares of HK$0.01 each were issued upon the exercise of 334,511,632 units of Bonus Warrants. As at 30 June 2010, there were 982,153,233 units of Bonus Warrants outstanding.

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 was no outstanding share option as at 30 June 2010 as all those options brought forward from 2009 were either lapsed or forfeited. There was no option granted during the Period.

EVENTS AFTER THE END OF THE INTERIM PERIOD

Save as disclosed in note 23, the Group had no other event after the end of the interim period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 49 employees, of which 31 were in Hong Kong and 18 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 Period.

BUSINESS REVIEW

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 Period, the progress was still in its early stage and a loss of HK$45,083,000 was recorded resulting from the excess of cost of operation over the revenue of HK$3,695,000, amortization of the PSC of HK$62,737,000, change in fair value of convertible bonds' embedded derivatives of HK$128,478,000, embedded interest on promissory notes amounted to HK$19,103,000 and convertible bonds amounted to HK$7,411,000 and net gain on restructure of promissory notes amounted to HK$9,551,000.

As at the date of this report, 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. After the challenging market environment in 2008 and 2009, the electronic components business recorded an increase in revenue of HK$2,341,000 from HK$19,592,000 in 2009 to HK$21,933,000 in 2010, representing a 11.94% increase. However, the pressure from the rise of administrative expenses leads to a loss of HK$612,000 in 2010 (2009: HK$562,000).

Securities Trading Business

The Company, through its wholly-owned subsidiary, Magic Chance Investments Limited ("Magic Chance"), started to engage in securities and debts trading in Hong Kong in the Period with a view for short to medium term profit. As at the period ended 30 June 2010, Magic Chance invested in Hong Kong listed shares in an amount of approximately HK$1.69 million. It is expected that the Group will devote more resources in this business as the financial environment in Hong Kong is continued to be prosperous.

Natural Gas Business

The Company, through its wholly-owned subsidiary, Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") which holds he 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.

As disclosed in the annual report 2009, 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"). The Company is intended to dispose this operation as soon as practicable.

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 this year, 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.

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 Period or at any time during the Period.

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

As at 30 June 2010, 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 ("**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:

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
Tong Nai Kan	Corporate *(Note)*	60,000,000	12,000,000	0.83%

Note: These shares/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 30 June 2010, 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.

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

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2010, 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.

Name	Nature of interest	Number of underlying shares	Percentage
New Alexander Limited	Corporate	5,053,986,956	58.48%

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules throughout the Period with the following major deviations:

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.

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.

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.

CORPORATE GOVERNANCE *(Continued)*

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 independent non-executive Directors (the "**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 Company's articles of association (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 CG Code.

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 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.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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 as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of 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 Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities in the Company during the Period.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises all the INEDs including Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon.

The unaudited condensed interim financial report has been reviewed by the Company's independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

ACKNOWLEDGEMENT

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

On behalf of the Board
New Smart Energy Group Limited
Tong Nai Kan
Chairman

Hong Kong, 23 August 2010

CCIF
CCIF CPA LIMITED
陳葉馮會計師事務所有限公司
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

TO THE BOARD OF DIRECTORS OF NEW SMART ENERGY GROUP LIMITED
(incorporated in Hong Kong with limited liability)

Introduction
We have reviewed the interim financial information set out on pages 15 to 44, which comprises the condensed consolidated statement of financial position of New Smart Energy Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of income statement, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review
We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Subject to any adjustments arising from the recoverability of the assets less liabilities associated with the disposal group classified as held for sale as referred to note 7 to the interim financial information, based on our review, no other matter has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 August 2010

Leung Chun Wa
Practising Certificate Number P04963

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000* (restated)
Continuing operations			
Turnover	3	**23,236**	20,388
Cost of sales		**(19,413)**	(17,504)
Gross profit		**3,823**	2,884
Other income		**58**	168
Administrative expenses		**(20,301)**	(20,812)
Amortisation of production sharing contract	10	**(62,737)**	(62,297)
Net gain on restructure of promissory notes	16	**9,551**	–
Fair value change of financial assets at fair value through profit or loss		**(216)**	–
Fair value change of convertible bonds' embedded derivatives	17	**128,478**	(375,228)
Finance costs	5	**(26,543)**	(39,995)
Profit/(loss) before income tax		**32,113**	(495,280)
Income tax	6	**15,684**	15,574
Profit/(loss) for the Period from continuing operations		**47,797**	(479,706)
Discontinued operation			
Profit for the Period from discontinued operation, net	7(a)	**–**	459
Profit/(loss) for the Period		**47,797**	(479,247)

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000* (restated)
Earnings/(loss) per share (expressed in HK cents)	8		
From continuing and discontinued operations			
– Basic and diluted		**0.59**	(16.12)
From continuing operations			
– Basic and diluted		**0.59**	(16.14)
From discontinuing operation			
– Basic and diluted		**N/A**	0.02

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000* (restated)
Profit/(loss) for the period		**47,797**	(479,247)
Other comprehensive income			
Exchange differences arising on translation of subsidiaries and operations outside Hong Kong		**21,366**	3,637
Total comprehensive income/(loss) for the period attributable to owners of the Company		**69,163**	(475,610)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	**Unaudited 30 June 2010 HK$'000**	Audited 31 December 2009 HK$'000
Non-current assets			
Property, plant and equipment	9	**26,382**	22,630
Intangible assets	10	**3,584,507**	3,618,284
Available-for-sale financial assets		**2,641**	2,641
		3,613,530	3,643,555
Current assets			
Inventories		**120**	–
Held-for-trading investments	11	**1,688**	–
Trade and other receivables	12	**17,720**	15,242
Cash and bank balances		**37,007**	39,126
		56,535	54,368
Assets of a discontinued operation and disposal group classified as held for sale	7	**97,948**	97,117
		154,483	151,485
Total assets		**3,768,013**	3,795,040
Capital and reserves			
Share capital	13	**86,421**	66,163
Reserves	14	**1,351,208**	1,108,479
Total equity		**1,437,629**	1,174,642

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	**Unaudited 30 June 2010 HK$'000**	Audited 31 December 2009 HK$'000
Non-current liabilities			
Promissory notes, unsecured	16	**–**	142,620
Convertible bonds, unsecured	17	**1,195,874**	1,417,515
Deferred tax liabilities	18	**896,127**	904,571
		2,092,001	2,464,706
Current liabilities			
Other borrowings, unsecured	15	**20,036**	20,618
Trade and other payables	19	**27,406**	29,092
Promissory notes, unsecured	16	**144,830**	60,241
		192,272	109,951
Liabilities of a discontinued operation and disposal group classified as held for sale	7	**46,111**	45,741
		238,383	155,692
Total liabilities		**2,330,384**	2,620,398
Total equity and liabilities		**3,768,013**	3,795,040
Net current liabilities		**(83,900)**	(4,207)
Total assets less current liabilities		**3,529,630**	3,639,348

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Unaudited			
	Share capital	Other reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	66,163	1,430,007	(321,528)	1,174,642
Total comprehensive income for the Period	–	21,366	47,797	69,163
Issue of new shares				
– upon conversion of convertible bonds	3,913	96,661	–	100,574
– upon placing of shares	13,000	63,525	–	76,525
– upon exercise of bonus warrants	3,345	13,380	–	16,725
At 30 June 2010	86,421	1,624,939	(273,731)	1,437,629
At 1 January 2009	737,609	245,463	(244,844)	738,228
Total comprehensive loss for the period	–	3,637	(479,247)	(475,610)
Issue of new shares upon conversion of convertible bonds	300,000	68,691	–	368,691
Share options forfeited	–	(1,771)	1,771	–
At 30 June 2009	1,037,609	316,020	(722,320)	631,309

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Net cash used in operating activities	**(18,938)**	(23,056)
Net cash used in investing activities	**(7,277)**	(1,686)
Net cash generated from/(used in) financing activities	**24,919**	(4,580)
Net decrease in cash and cash equivalents	**(1,296)**	(29,322)
Cash and cash equivalents at beginning of the Period	**39,126**	38,857
Effect of foreign exchange rate changes	**(823)**	(533)
Cash and cash equivalents at end of the Period	**37,007**	9,002

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

(a) General information

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

(b) Going concern

At 30 June 2010, the Group had net current liabilities of approximately HK$84 million. The directors of the Company are of the opinion that the Group will be able to finance its future working capital and financial requirements after taking into consideration of the followings:

i) On 19 August 2010, the Company has entered into a supplemental agreement with New Alexander Limited, the sole promissory notes holder who has agreed to extend the maturity of zero coupon promissory notes, with a principal value of HK$160,000,000 and a carrying value at amortised cost of HK$144,830,000 as at 30 June 2010, from 26 May 2011 to 31 October 2011; and

ii) New Alexander Limited, the sole holder of convertible bonds and promissory notes, has agreed to provide continuing financial support to the Company so as to enable it to meet its debts as and when they fall due in the foreseeable future.

2. Principal accounting policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

In the current Period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRS 27 (Revised)	Consolidated and separate financial statements
HKFRS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settlement share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners

The application of the new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

2. Principal accounting policies *(Continued)*

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 [1]
HKAS 24 (Revised)	Related party disclosures [4]
HKAS 32 (Amendment)	Classification of rights issued [2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters [3]
HKFRS 9	Financial instruments [5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a minimum funding requirement [4]
HK(IFRIC) – Int 19	Extinguish financial liabilities with equity instruments [3]

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

3. Segment information

The Group' operating segments, based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

Continuing operations:

– Sale of electronics components
– Exploration and exploitation of coalbed methane
– Securities trading

Discontinued operation *(note 7)*:

– Sale of natural gas

3. Segment information *(Continued)*

The following is an analysis of the Group's revenue and results by operating segments for the Period under review:

Six months ended 30 June 2010 (unaudited)

	Continuing operations				Discontinued operation *(note 7)*	
	Electronic components *HK$'000*	**Coalbed methane** *HK$'000*	**Securities trading** *HK$'000*	**Sub-total** *HK$'000*	**Natural gas** *HK$'000*	**Total** *HK$'000*
Segment revenue from external customers	**21,933**	**1,303**	**–**	**23,236**	**–**	**23,236**
Segment results	**(583)**	**(66,432)**	**(240)**	**(67,255)**	**–**	**(67,255)**
Unallocated corporate expenses	**–**	**–**	**–**	**(12,118)**	**–**	**(12,118)**
Fair value change of convertible bonds' embedded derivatives	**–**	**128,478**	**–**	**128,478**	**–**	**128,478**
Net gain on restructure of promissory notes	**–**	**9,551**	**–**	**9,551**	**–**	**9,551**
Finance costs	**(29)**	**(26,514)**	**–**	**(26,543)**	**–**	**(26,543)**
Segment profit/(loss)	**(612)**	**45,083**	**(240)**	**32,113**	**–**	**32,113**

Six months ended 30 June 2009 (unaudited)

	Continuing operations				Discontinued operation *(note 7)*	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Securities trading *HK$'000*	Sub-total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Segment revenue from external customers	19,592	796	–	20,388	45,912	66,300
Segment results	(562)	(66,088)	–	(66,650)	4,854	(61,796)
Unallocated corporate expenses	–	–	–	(13,407)	–	(13,407)
Impairment on doubtful debts	–	–	–	–	(2,853)	(2,853)
Fair value change of convertible bonds' embedded derivatives	–	(375,228)	–	(375,228)	–	(375,228)
Finance costs	–	(39,995)	–	(39,995)	(1,239)	(41,234)
Segment profit/(loss)	(562)	(481,311)	–	(495,280)	762	(494,518)

3. Segment information *(Continued)*

Segment profit/(loss) represents the profit/(loss) generated by each segment without allocation of central administration costs and non-recurring expenses. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	Continuing operations	
	30 June 2010	31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Electronic components	**7,855**	7,819
Coalbed methane	**3,618,920**	3,647,210
Securities trading	**1,720**	–
Total segment assets	**3,628,495**	3,655,029
Unallocated corporate assets	**41,570**	42,894
Total assets	**3,670,065**	3,697,923

4. Operating profit/(loss) – unaudited

	Continuing operations Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Operating profit/(loss) is arrived at after charging:		
Staff costs (including Directors' emoluments)		
– Salaries and other emoluments	**10,511**	9,968
– Contributions to retirement scheme	**160**	148
	10,671	10,116
Depreciation	**1,678**	1,647
Amortisation on production sharing contract	**62,737**	62,297
	64,415	63,944
Operating lease rental expenses for land and buildings	**1,885**	1,798
Loss on disposal of property, plant and equipment	**117**	–

5. Finance costs – unaudited

	Continuing operations Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Interest expenses on the following borrowings wholly repayable within five years:		
– Promissory notes	**19,103**	26,792
– Convertible bonds	**7,411**	12,052
– Bank loans and overdrafts	**29**	1,151
	26,543	39,995

6. Income tax – unaudited

	Continuing operations Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**–**	–
Deferred taxation *(note 18)*	**15,684**	15,574
	15,684	15,574

Notes:

(a) No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements, as the Group had no significant assessable profits in Hong Kong for both periods. Overseas taxation is calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

(b) The subsidiaries in the People's Republic of China (the "PRC") are subject to an income tax rate of 25% (2009: 25%), being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in 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.

(c) Deferred taxation arose from the reversal of the temporary difference arising from the amortisation of the production sharing contract in respect of CBM as referred to in note 10 to the financial statements.

7. Discontinued operation and disposal group classified as held for sale

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.

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

	Unaudited Discontinued operation Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Turnover	–	45,912
Cost of natural gas sold	–	(32,428)
Gross profit	–	13,484
Other income	–	473
Selling and distribution expenses	–	(1,297)
Administrative expenses	–	(10,659)
Finance costs	–	(1,239)
Profit before taxation	–	762
Income tax	–	(303)
Profit for the period	–	459

7. Discontinued operation and disposal group classified as held for sale *(Continued)*

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

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

	Unaudited Discontinued operation Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Depreciation	–	4,312
Amortisation of right to use gas pipelines	–	284
Amortisation of land use rights	–	101
Operating lease rental expenses for land and buildings	–	343
Impairment on doubtful debts	–	2,853
Employee benefit expenses		
– Salaries, wages and other benefits	–	2,758
– Contributions to defined contribution retirement plans	–	413

(b) Income tax

	Unaudited Discontinued operation Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
PRC enterprise income tax	–	303

(c) The net cash flows of the discontinued operation and disposal group classified as held for sale for the six months ended 30 June 2010 and 2009 are as follows:

	Unaudited Discontinued operation Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Net cash outflow from operating activities	–	(2,703)
Net cash outflow from investing activities	–	(2,354)
Net cash inflow from financing activities	–	602
Net cash outflow incurred by the discontinued operation	–	(4,455)

7. Discontinued operation and disposal group classified as held for sale *(Continued)*

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

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 the consideration of RMB50 million received thus far. In the opinion of the directors of the Company, the net carrying amount of the disposal group of HK$51,837,000 (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")) (the "Lawsuit"), among others, in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges. 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 on 28 August 2009.

According to the advice of the PRC legal advisor of the Company ("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.

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 Company has instructed its PRC lawyer to defend the New Lawsuit instituted against the Two PRC Subsidiaries. The hearing of the New Lawsuit was held on 10 June 2010 and there was no judgement received from the Court as at this report date.

7. Discontinued operation and disposal group classified as held for sale *(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.

8. Earnings/(loss) per share

(a) Basic

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

	Unaudited Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) used in the calculation of total basic profit/(loss) per share from continuing and discontinued operations	**47,797**	(479,247)
Profit used in the calculation of basic earnings per share from discontinued operation	**–**	459
Profit/(loss) used in the calculation of basic earnings/(loss) per share from continuing operations	**47,797**	(479,706)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share:		
Issued ordinary shares at 1 January	**6,616,254,804**	2,950,434,391
Effect of conversion of convertible bonds	**176,301,959**	22,252,747
Effect of exercise of bonus warrants	**131,064,081**	–
Effect of placing subscription	**1,200,000,000**	–
Weighted average number of ordinary shares at 30 June	**8,123,620,844**	2,972,687,138

(b) Diluted

The diluted earnings/(loss) per share for the six months ended 30 June 2010 and 2009 were same as the basic earnings/(loss) per share as the exercise price of outstanding convertible bonds and bonus warrants during the Period was higher than the average market price of the Company's share and accordingly, there was no dilutive effect on the basic earnings/(loss) per share.

9. Property, plant and equipment

	Unaudited Property, plant and equipment *HK$'000*
Carrying amount as at 1 January 2010	22,630
Changes in exchange rates	174
Additions	5,373
Disposals	(117)
Depreciation	(1,678)
Carrying amount as at 30 June 2010	26,382

10. Intangible assets

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2009	3,731,090
Exchange adjustments	22,749
At 31 December 2009 and 1 January 2010	3,753,839
Exchange adjustments	30,391
At 30 June 2010	3,784,230
Accumulated amortisation	
At 1 January 2009	10,364
Charge for the year	124,674
Exchange adjustments	517
At 31 December 2009 and 1 January 2010	135,555
Charge for the Period	62,737
Exchange adjustments	1,431
At 30 June 2010	199,723
Carrying amount	
At 30 June 2010	3,584,507
At 31 December 2009	3,618,284

10. Intangible assets *(Continued)*

Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008 ("Merit First Acquisition"), 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, the minimum 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 Sunan Area of Anhui 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.

Pursuant to the PSC and its modification dated 28 February 2009, during the exploration period, Can-Elite shall (i) drill at least 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.

10. Intangible assets *(Continued)*

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

11. Held-for-trading investments

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Listed securities		
– Equity securities in Hong Kong, at fair value	**1,688**	–

The fair value of the above listed securities was determined by reference to their quoted bid prices at the end of the reporting period.

12. Trade and other receivables

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Trade debtors	**4,802**	4,689
Provision for impairment	**(298)**	(298)
	4,504	4,391
Other debtors	**8,682**	6,177
Deposits and prepayments	**4,534**	4,674
	17,720	15,242

The credit terms granted to trade debtors in respect of sales of electronic components are usually 30 to 90 days.

The ageing analysis of the trade debtors, based on the dates of the invoices, net of provision for impairment, is as follows:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Below 30 days	**3,029**	4,278
30 to 90 days	**1,391**	38
91 to 180 days	**48**	48
Over 180 days	**36**	27
	4,504	4,391

13. Share capital

	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
Authorised:		
At 1 January 2009 of HK$0.25 each	20,000,000,000	5,000,000
Capital reduction *(note a)*	–	(4,800,000)
At 31 December 2009 and 30 June 2010 of HK$0.01 each	20,000,000,000	200,000
Issued and fully paid:		
At 1 January 2009	2,950,434,391	737,609
Capital reduction *(note a)*	–	(996,104)
Issue of new shares:		
– upon conversion of convertible bonds *(note b)*	2,990,332,000	317,903
– upon placing of shares *(note c)*	670,000,000	6,700
– upon exercise of bonus warrants *(note d)*	5,488,413	55
At 31 December 2009 and 1 January 2010	6,616,254,804	66,163
Issue of new shares:		
– upon conversion of convertible bonds *(note b)*	391,304,347	3,913
– upon placing of shares *(note c)*	1,300,000,000	13,000
– upon exercise of bonus warrants *(note d)*	334,511,632	3,345
At 30 June 2010	8,642,070,783	86,421

Notes:

(a) 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 Company's accumulated losses with HK$503,932,000 and to a special capital reserve with HK$492,172,000.

13. Share capital *(Continued)*

Notes: (Continued)

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

During the six months ended 30 June 2010, convertible bonds with principal amount of HK$90,000,000 (2009: HK$300,000,000) were converted into 391,304,347 (2009: 1,200,000,000) ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.23 (2009: HK$0.25) per share. HK$3,913,000 (2009: HK$300,000,000) and HK$96,661,000 (2009: HK$68,691,000) were recorded in share capital and share premium, respectively. Liabilities component, carried at amortised cost using an effective rate of 1.29%, of HK$85,889,000 (2009: HK$283,290,000) and equity conversion component of HK$14,685,000 (2009: HK$85,401,000) were derecognized upon conversion of these bonds as referred to note 17 to the financial statements.

During the year ended 31 December 2009, 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 (a) above), respectively at a conversion price of HK$0.25 per share.

(c) 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.

On 13 January 2010, the Company issued 1,300,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.061. Net proceeds from such issue amounted to HK$76,524,500 (after offsetting issuing expenses of HK$2,775,500) out of which HK$13,000,000 and HK$63,524,500 were recorded in share capital and share premium, respectively.

(d) 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 period ended 30 June 2010, 334,511,632 new ordinary shares of HK$0.01 each were issued upon the exercise of 334,511,632 units of bonus warrants. As at 30 June 2010, there were 982,153,233 (year ended 31 December 2009: 1,316,664,865) units of bonus warrants outstanding.

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

14. Reserves

	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*
At 1 January 2010	876,044	5,318	492,172	1,805	–	949	47,549	6,170	(321,528)	1,108,479
Total comprehensive income for the Period	–	–	–	–	–	–	21,366	–	47,797	69,163
Issue of new shares:										
– upon conversion of convertible bonds	96,661	–	–	–	–	–	–	–	–	96,661
– upon placing of shares	63,525	–	–	–	–	–	–	–	–	63,525
– upon exercise of bonus warrants	13,380	–	–	–	–	–	–	–	–	13,380
At 30 June 2010	1,049,610	5,318	492,172	1,805	–	949	68,915	6,170	(273,731)	1,351,208
At 1 January 2009	201,302	5,318	–	1,805	1,771	949	29,840	4,478	(244,844)	619
Total comprehensive loss for the year	–	–	–	–	–	–	17,709	–	(580,695)	(562,986)
Capital reduction	–	–	492,172	–	–	–	–	–	503,932	996,104
Issue of new shares:										
– upon conversion of convertible bonds	613,944	–	–	–	–	–	–	–	–	613,944
– upon placing of shares	60,578	–	–	–	–	–	–	–	–	60,578
– upon exercise of bonus warrants	220	–	–	–	–	–	–	–	–	220
Share options forfeited	–	–	–	–	(1,771)	–	–	–	1,771	–
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

Pursuant to the reductions in capital of the Company in 2003 ("2003 Capital Reduction") and in 2009 ("2009 Capital Reduction"), 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 realized 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 30 June 2010 and 31 December 2009, no credit transfer to this special reserve was made by the Company as there were no recoveries in respect of these provisions against certain specific subsidiaries at 30 June 2010 and 31 December 2009.

15. Borrowings

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Other borrowings, unsecured	**20,036**	20,618

Other borrowings, related to the CBM business under the PSC (note 10), were repayable on demand to an independent third party, unsecured and had 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 10) and this independent third party lender, pursuant to which the other borrowings were restructured, with retrospective effect from 1 April 2008, as bearing no interest.

16. Promissory notes

The movements of the promissory notes (zero coupon) carried at amortised cost are set out below:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
At 1 January	**202,861**	160,154
Imputed interest accrued and charged to profit or loss	**19,103**	52,290
Early partial redemption of promissory notes	**(67,583)**	(9,583)
Net gain on restructure of promissory notes *(note (a) below)*:		
– Gain on restructure of promissory notes	**(15,430)**	–
– Loss on early partial redemption of promissory notes	**5,879**	–
	(9,551)	–
At 30 June 2010 and 31 December 2009	**144,830**	202,861
Amounts classified under following categories in statement of financial position:		
Non-current liabilities	**–**	142,620
Current liabilities	**144,830**	60,241
	144,830	202,861

Notes:

(a) With effect on 21 April 2010, the maturity of the promissory notes was extended from 26 May 2010 to 26 May 2011. The promissory notes with principal value of HK$67,583,000 (carrying value at amortised cost of HK$61,704,000 at the dates of redemption) were redeemed during the current period ended 30 June 2010.

(b) Pursuant to a supplemental agreement dated 19 August 2010, the promissory notes with principal value of HK$160,000,000 have been subsequently restructured with an extended maturity from 26 May 2011 to 31 October 2011.

17. Convertible bonds

On 26 November 2008, the Company issued convertible bonds with an aggregate principle amount of HK$2,000,000,000 with a term of five years in connection with the acquisition of 100% equity interest in Merit First Investments Limited. The bonds carry zero coupon rate. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 per conversion share at any time during the Period commencing from the date of issue of convertible bonds, which had been changed to HK$0.23 each with effect on 13 November 2009.

As the functional currency of the Group is Renminbi, the conversion option of the convertible bonds denominated in Hong Kong dollar 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.

The fair value of the liability portion and embedded derivatives portion of the convertible bonds were determined as of the date of issue by an independent professional valuer. At each of the balance sheet date, the fair value of the embedded derivatives portion of the convertible bonds were revalued, using the options pricing model. During the Period, convertible bonds in an aggregated amount of HK$90,000,000 were conversed into 391,304,347 ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.23 per share. As at 30 June 2010, the fair value of the embedded derivatives portion of the convertible bonds was revalued by an independent professional valuer, BMI Appraisals Limited, at approximately HK$83,362,000. The decrease in fair value of the embedded derivatives of approximately HK$128,478,000 has been recognised and credited in the condensed consolidated income statement for the Period whilst the increase in the fair value of the embedded derivatives of approximately HK$375,228,000 were charged to the condensed consolidated income statement for the last period.

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

	Embedded derivatives portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of convertible bonds as at 1 January 2010	226,525	1,190,990	1,417,515
Imputed interest amortised charged to profit or loss	–	7,411	7,411
Decrease in fair value credited to profit or loss	(128,478)	–	(128,478)
Conversion into new shares *(note 13)*	(14,685)	(85,889)	(100,574)
Carrying amount of convertible bonds as at 30 June 2010	83,362	1,112,512	1,195,874

18. Deferred tax liabilities

	HK$'000
At 1 January 2009	935,360
Credited to income statement for the year	(31,169)
Deferred liabilities of a disposal group classified as held for sale *(note 7)*	(5,211)
Exchange adjustments	5,591
At 31 December 2009 and 1 January 2010	904,571
Credited to income statement for the Period	(15,684)
Exchange adjustments	7,240
At 30 June 2010	896,127

At 30 June 2010, the recognised deferred tax liabilities represented the tax effect of the fair value adjustments on the business combination completed in 2008.

19. Trade and other payables

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Trade creditors	**9,309**	11,825
Other creditors	**17,710**	14,925
Accrued operating expenses	**387**	2,342
	27,406	29,092

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

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Below 30 days	**3,245**	4,147
30 to 90 days	**5,484**	6,009
91 to 180 days	**143**	1,267
Over 180 days	**437**	402
	9,309	11,825

20. Share option scheme

The Company operates a share option scheme (the "Scheme") approved by the shareholders on 29 September 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 taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the options. All of the share options were forfeited during the Period.

Movements in the numbers of share options during the Period/year were as follows:

	Unaudited 30 June 2010	Audited 31 December 2009
At beginning of the Period/year	**13,730,000**	13,730,000
Share options forfeited	**(13,730,000)**	(12,930,000)
Share options lapsed	**–**	(800,000)
At end of the Period/year	**–**	–

There was no option granted during the Period.

21. Commitments

(i) Capital commitments

Capital commitments in respect of the production sharing contract and the other investment as at 30 June 2010 not provided for in the financial statements were as follows:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Authorised and contracted for		
– Production sharing contract *(note 10)*	**12,107**	12,010
Contracted but not provided for		
– Production sharing contract *(note 10)*	**31,680**	31,425
– Other property, plant and equipment	**5,931**	5,883
	49,718	49,318

(ii) Operating lease commitments

The future aggregate minimum lease rental expense of the Group in respect of land and buildings under non-cancellable operating leases is payable in the following years:

	Unaudited 30 June 2010 *HK$'000*	Audited 31 December 2009 *HK$'000*
Within 1 year	**2,975**	1,388
After 1 year but within 5 years	**1,498**	363
	4,473	1,751

22. 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 in 7 August 2006. 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 Company and Marvel Time have filed an acknowledgement of service of the writ of summons on 29 April 2010. A Statement of Claim was served on the Company and Marvel Time on 8 June 2010 by Mr. Tan and the Company and Marvel Time filed its defence on 6 July 2010. 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.

(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 irrespectively 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.

23. Events after the end of the interim period

(a) On 9 August 2010, the Company entered into a conditional Placing Agreement with the Placing Agent for the placing of 1,728,000,000 new shares of the Company at the Placing Price of HK$0.044 per Placing Share. The Placing is conditional upon the Listing Committee granting approval for listing of, and permission to deal in, the Placing Shares.

(b) On 19 August 2010, the Company entered into a supplemental agreement with the promissory notes holder pursuant to which the maturity of the promissory notes with a principal value of HK$160,000,000, which was carried at amortised cost of HK$144,830,000 at 30 June 2010 (note 16), has been subsequently extended from 26 May 2011 to 31 October 2011.

24. 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 period's presentation.