

Interim Report  
2011



**NEW SMART ENERGY GROUP LIMITED**  
(Stock code : 91)

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

Tong Nai Kan (*Chairman*)

Cheng Wai Keung

Lo Tai In

Tam Tak Wah

Tsang Ching Man

Pang Yuen Shan Christina

(*resigned on 15 June 2011*)

#### **Independent Non-Executive Directors**

Chan Tsz Kit

Chan Yim Por Bonnie

(*appointed on 28 July 2011*)

Wang Li

Wong Kwok Hong Simon

(*resigned on 28 July 2011*)

#### **AUDIT COMMITTEE**

Chan Tsz Kit (*Chairman*)

Chan Yim Por Bonnie

(*appointed on 28 July 2011*)

Wang Li

Wong Kwok Hong Simon

(*resigned on 28 July 2011*)

#### **REMUNERATION COMMITTEE**

Chan Yim Por Bonnie (*Chairman*)

(*appointed on 28 July 2011*)

Chan Tsz Kit

Wang Li

Wong Kwok Hong Simon

(*resigned on 28 July 2011*)

### **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](http://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 2011 (the “**Period**”).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group’s turnover of continuing operations for the Period was HK\$24,425,000 (2010: HK\$23,236,000), representing an increase of 5.12%. Such increase of turnover was mainly due to the contribution from the treasury business where the Group engaged in securities and debts trading and money lending business in Hong Kong. The turnover generated by the sale of electronic components decreased by 25.06% from HK\$21,933,000 in 2010 to HK\$16,436,000 in 2011, representing 67.29% of the Group’s turnover. The Coalbed Methane (“**CBM**”) exploration and exploitation operating subsidiary (“**CBM Operating Subsidiary**”) and the treasury segment contributed HK\$1,389,000 (2010: HK\$1,303,000) and HK\$6,600,000 (2010: nil) to the Group in 2011, representing 5.69% and 27.02% of the Group’s turnover respectively. The Group’s gross profit from continuing operations increased by 155.30% to HK\$9,760,000 from HK\$3,823,000 in 2010.

The Group’s loss from continuing operations for the Period was HK\$38,221,000 (2010: profit of HK\$47,797,000). Substantial part of Group’s loss was mainly due to the accounting treatments of various items, such as amortization of the Production Sharing Contract (“**PSC**”) amounted to HK\$65,656,000 (2010: HK\$62,737,000), gain on early redemption of convertible notes amounted to HK\$891,000 (2010: nil), fair value change of financial assets at fair value through profit or loss amounted to HK\$585,000 (2010: HK\$216,000), fair value gain on convertible notes’ embedded derivatives amounted to HK\$25,286,000 (2010: HK\$128,478,000), embedded interest on and convertible notes amounted to HK\$6,926,000 (2010: HK\$7,411,000), deferred tax credit amounted to HK\$16,414,000 (2010: HK\$15,684,000). The aggregate net result of the abovementioned accounting loss for 2011 was HK\$30,576,000 (2010: profit of HK\$64,246,000).

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

For comparison purpose, the loss after tax from continuing operations for 2011 and 2010 respectively, if excluding those accounting profit and loss, was HK\$7,645,000 and HK\$16,449,000 respectively. The substantial decrease in loss of 53.52% was mainly due to contribution from the treasury segment, i.e. in particular, the money lending business, with a comparatively high profit margin.

The Group recorded a loss attributable to owners of the Group was approximately HK\$3,661,000 (2010: profit of HK\$48,030,000). The basic and diluted loss per share from continuing and discontinued operations was HK0.05 cents (2010: earnings per share of HK1.62 cents (as restated)). The Directors do not recommend the payment of dividend in respect of the Period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2011, the Group had current assets of HK\$285,408,000 (31 December 2010: HK\$449,958,000) and current liabilities of HK\$53,982,000 (31 December 2010: HK\$104,985,000) and cash and bank balances of HK\$171,509,000 (31 December 2010: HK\$346,803,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 528.71% (31 December 2010: 428.59%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 30.57% (31 December 2010: 29.84%). 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.

In March 2011, the Company completed the disposal of the entire equity interests in Sanxia Gas (BVI) Investment Limited, together with its subsidiaries at a cash consideration of RMB50 million, details of which are contained in the circular of the Company dated 25 February 2011. Net proceeds from the disposal with amount of approximately HK\$57 million has been used for the working capital of the Group. Following to this disposal, all litigations against the Group in relation to this matter are fully settled/discharged.

In April 2011, convertible notes with principal amount of HK\$112,417,000 were early redeemed by cash of HK\$109,917,000 with a discount of HK\$2,500,000 provided by the convertible note holder.

The Directors believed that the above mentioned early redemption of convertible notes and the disposal have contributed to an improvement of the gearing and liquidity of the Group.

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.

## PROPOSED SHARE CONSOLIDATION AND OPEN OFFER

In August 2011, the Company proposed to implement a share consolidation on the basis that every two issued and unissued existing shares with a par value of HK\$0.04 each will be consolidated into one consolidated share with a par value of HK\$0.08 each. The share consolidation is subject to the shareholders' approval at the extraordinary general meeting to be held on 16 September 2011. Subject to the share consolidation becoming effective, the Company proposes to raise approximately HK\$325.29 million by issuing 3,319,236,603 offer shares by way of open offer for every one consolidated share held on record date (which is expected to be on 27 September 2011). The estimated net proceeds from the open offer will be approximately HK\$312 million and will be utilized for the partial payment of the convertible notes and the general working capital of the Group, details of which are contained in the circular of the Company dated 24 August 2011.

## COMMITMENTS

Details of the commitments of the Group are set out in note 19.

## 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 20, the Group had no other contingent liabilities as at 30 June 2011.

## LITIGATION

The Company had on various dates since January 2011 placed an aggregate amount of HK\$85,000,000 (the “**Escrow Sum**”) with a solicitor firm in Hong Kong, namely, K & L Gates, as an escrow agent (the “**Escrow Agent**”), of which HK\$35,000,000 was intended to be used as earnest moneys to facilitate negotiation with a potential seller of a project for future investments, and under the money lending business of a subsidiary of the Company, a sum of HK\$25,000,000 was advanced to a borrower as a loan which was agreed to be held in escrow by the Escrow Agent in January and a further sum of HK\$25,000,000 was also advanced to a borrower as a loan in April held in escrow by the Escrow Agent.

As the entire Escrow Sum had fallen due and became payable to the Company on 24 June 2011, despite the Company's repeated requests to K & L Gates for the release of the Escrow Sum, the Company had not received the Escrow Sum as at this report date. In early July of 2011, the Company, through its solicitors, took out three separate writs of summons against K & L Gates, claiming for, among other things, the return of the aforementioned three sums which amounted to the Escrow Sum, plus interest and cost. As at the date of this report, statements of claim had been filed and the actions against K & L Gates continued.

The Directors are of the opinion, based on the legal advice sought, that the Escrow Sum can be recovered in full.

Save as disclosed above, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Company is engaged or pending or which was threatened against the Company.

### **CHARGED ON ASSETS**

The short-term bank deposits, amounted to HK\$3,161,000, have been pledged as securities for banking facilities granted to the continuing operation of the Group as at 30 June 2011.

### **EVENTS AFTER THE END OF THE INTERIM PERIOD**

Save as disclosed in note 21, the Group had no other event after the end of the interim period.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2011, the Group had 57 employees, of which 31 were in Hong Kong and 26 were in PRC. 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 PRC.

### **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

Save as disclosed in note 7, the Group had no other 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 Su’nan area, Anhui Province (the “**Contract Area**”) in the PRC, for a term of 30 years, with effect from 1 April 2008. The profit sharing ratio between China United and Can-Elite is 30:70.

Can-Elite has started a drilling project of a set of exploration experimental wells in the Contract Area since 2009 and 5 wells was completed. In late 2010, Can-Elite hired professionals to conduct various experiments on the experimental wells and analyze the data collected in order to improve the existing drilling methods and exploitation technologies.

During the Period, the CBM business contributed about HK\$1,389,000 of the revenue (2010: HK\$1,303,000). A loss of HK\$49,969,000 was recorded mainly resulting from the amortization of the PSC of HK\$65,656,000 (2010: HK\$62,737,000).

With the effort of the on-going progress in exploration and further investment in exploitation technology research, it is expected that the above area will enter into development stage, and returns will be captured in the coming years.

### **Treasury Business**

The treasury business includes securities trading and money lending businesses.

The Group, through its wholly-owned subsidiary, Magic Chance Investments Limited (“**Magic Chance**”), continued to engage in securities and debts trading in Hong Kong with a view for short to medium term profit. In this Period, Magic Chance invested in various financial instruments amounted to approximately HK\$25,828,000. It is expected that the Group will further devote more resources in this business as the Hong Kong stock market is expected to be vigorous.

A wholly-owned subsidiary of Group, New Smart Credit Services Limited (“**New Smart Credit**”), which held the Money Lender Licence in Hong Kong since late 2010, carried a money lending business in Hong Kong. In this Period, New Smart Credit generated revenue with amount of approximately HK\$6,600,000. Due to the mature Hong Kong financing market, the demand of loans is expected to increase substantially. The Board believes that the money lending business will generate satisfactory revenue for the Group.

### **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. Resulted from the declining market of the electronic components, the electronic components business recorded a decrease of revenue of HK\$5,497,000 from HK\$21,933,000 in 2010 to HK\$16,436,000 in 2011.

### **PROSPECTS**

In the coming years, the Group continues to inject its resources to develop the CBM business in a board extent, with a view to launch its products to commercial operation in the near future.

In the “Twelfth Five-Year Plan – CBM developing and usage” which is now drafting by the PRC Ministry of Energy, in the future five to ten years, the reserve of proved CBM will step into fast growth period. With the steady growth of Chinese economy and increasing requirement of the environment protection will lead to a huge demand for clean energy and rapid growth of consumption on unconventional gas including coalbed methane, the development of CBM has huge potential. Possible upwards gas pricing changes will also help boost our profitability.

Moreover, the PRC Government has been 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, preferential policies like tax reliefs and government subsidies are likely to be published within this year.

When the CBM business commences 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.

Although the US and European sovereign debt crises and global inflation have added instabilities and uncertainties to the economy growth, the Board believes that Hong Kong has advantages as a financial centre in Asia and globally, especially with the full support from the PRC central government. The Group would also continue to develop its treasury business with a conservative approach and manages the risks at a relatively low level.



**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 2011, 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:

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares</b>	<b>Percentage</b>
Tong Nai Kan	Corporate ( <i>Note</i> )	13,750,000	0.21%

*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.

Save as disclosed above, as at 30 June 2011, 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 2011, 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 shares	Number of Underlying shares	Percentage
New Alexander Limited (Note)	Corporate	–	1,315,789,473	19.82%
King Phoenix Ltd	Corporate	1,070,800,000	–	16.13%

*Note:* New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2013 in an aggregate outstanding amount of HK\$1,000,000,000.

## 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 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.

**Communication with Shareholders (Deviation from Code Provision E.1.2)**

Under the code provision E.1.2, the chairman of the Board should attend the annual general meeting. Due to other business engagements, Mr. Tong Nai Kan, chairman of the Board, did not attend the annual general meeting held on 17 May 2011 (the “AGM”), which constitutes a deviation from the code provision E.1.2 during the Period. Mr. Tam Tak Wah, the executive Director, was elected as the chairman of the AGM pursuant to the Articles.

### **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. Chan Yim Por Bonnie and Mr. Wang Li.

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, 25 August 2011



**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 14 to 36, which comprises the condensed consolidated statement of financial position of New Smart Energy Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2011 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing 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” (“HKAS 34”) 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 HKAS 34. 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 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**

Based on our review, nothing 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 HKAS 34.

**CCIF CPA LIMITED**

*Certified Public Accountants*

Hong Kong, 25 August 2011

**Leung Chun Wa**

Practising Certificate Number P04963

**CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 30 June 2011*

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2011</b>	2010
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Continuing operations</b>			
Turnover	3	<b>24,425</b>	23,236
Cost of sales		<b>(14,665)</b>	(19,413)
Gross profit		<b>9,760</b>	3,823
Other income		<b>2,586</b>	58
Fair value gain of convertible notes' embedded derivatives	16	<b>25,286</b>	128,478
Gain on early redemption of convertible notes	16	<b>891</b>	–
Administrative expenses		<b>(19,958)</b>	(20,301)
Amortisation of production sharing contract	10	<b>(65,656)</b>	(62,737)
Net gain on restructure of promissory notes		<b>–</b>	9,551
Fair value change of financial assets at fair value through profit or loss	11	<b>(585)</b>	(216)
Finance costs	5	<b>(6,959)</b>	(26,543)
<b>(Loss)/profit before taxation</b>	<b>4</b>	<b>(54,635)</b>	32,113
Income tax	6	<b>16,414</b>	15,684
(Loss)/profit for the period from continuing operations		<b>(38,221)</b>	47,797
<b>Discontinued operation</b>			
Gain from disposal of subsidiaries, net	7	<b>34,419</b>	–
<b>(Loss)/profit for the period</b>		<b>(3,802)</b>	47,797
<b>(Loss)/profit for the period attributable to:</b>			
Owners of the Company		<b>(3,661)</b>	48,030
Non-controlling interests		<b>(141)</b>	(233)
		<b>(3,802)</b>	47,797

NEW SMART ENERGY GROUP LIMITED

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2011</b>	2010
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>(Loss)/earnings per share</b>	8		(Restated)
<b>(expressed in HK cents)</b>			
From continuing and discontinued operations			
– Basic and diluted		<b>(0.05)</b>	1.62
From continuing operations			
– Basic and diluted		<b>(0.57)</b>	1.62
From discontinuing operation			
– Basic and diluted		<b>0.52</b>	N/A



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(Loss)/profit for the period</b>		<b>(3,802)</b>	47,797
<b>Other comprehensive income</b>			
Exchange differences			
– on translation of foreign operations		53,559	21,366
– reclassification adjustments relating to disposal of overseas subsidiaries		(28,287)	–
<b>Total comprehensive income for the period</b>		<b>21,470</b>	69,163
Attributable to:			
Owners of the Company		21,611	69,396
Non-controlling interests		(141)	(233)
		<b>21,470</b>	69,163

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 30 June 2011*

	<i>Note</i>	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	43,315	42,086
Intangible assets	10	3,632,002	3,625,841
Available-for-sale financial assets		2,641	2,641
		<b>3,677,958</b>	3,670,568
<b>Current assets</b>			
Inventories		49	–
Financial assets at fair value through profit or loss	11	25,243	–
Trade and other receivables	12	88,607	6,038
Cash and bank balances		171,509	346,803
		<b>285,408</b>	352,841
Assets of a discontinued operation and disposal group classified as held for sale	7	–	97,117
		<b>285,408</b>	449,958
<b>Total assets</b>		<b>3,963,366</b>	4,120,526
<b>Capital and reserves</b>			
Share capital	13	265,539	265,539
Reserves	14	1,713,584	1,691,973
Equity attributable to owners of the Company		<b>1,979,123</b>	1,957,512
Non-controlling interests		(614)	(473)
<b>Total equity</b>		<b>1,978,509</b>	1,957,039

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	<i>Note</i>	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
<b>Non-current liabilities</b>			
Convertible notes – unsecured	16	<b>1,022,874</b>	1,152,042
Deferred tax liabilities	17	<b>908,001</b>	906,460
		<b>1,930,875</b>	2,058,502
<b>Current liabilities</b>			
Other borrowings, unsecured	15	<b>19,624</b>	20,035
Trade and other payables	18	<b>34,358</b>	39,209
		<b>53,982</b>	59,244
Liabilities of a discontinued operation and disposal group classified as held for sale	7	–	45,741
		<b>53,982</b>	104,985
<b>Total liabilities</b>		<b>1,984,857</b>	2,163,487
<b>Total equity and liabilities</b>		<b>3,963,366</b>	4,120,526
<b>Net current assets</b>		<b>231,426</b>	344,973
<b>Total assets less current liabilities</b>		<b>3,909,384</b>	4,015,541

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2011

	Attributable to owners of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000		
At 1 January 2011	265,539	2,003,059	(311,086)	1,957,512	(473)	1,957,039
Transfer	-	(6,170)	6,170	-	-	-
Loss for the period	-	-	(3,661)	(3,661)	(141)	(3,802)
Other comprehensive income						
Exchange differences						
– on translation of financial statements of overseas subsidiaries	-	53,559	-	53,559	-	53,559
– release upon disposal of subsidiaries	-	(28,287)	-	(28,287)	-	(28,287)
Total comprehensive income for the period	-	25,272	(3,661)	21,611	(141)	21,470
At 30 June 2011	<u>265,539</u>	<u>2,022,161</u>	<u>(308,577)</u>	<u>1,979,123</u>	<u>(614)</u>	<u>1,978,509</u>
At 1 January 2010	66,163	1,430,007	(321,528)	1,174,642	-	1,174,642
Profit for the period	-	-	48,030	48,030	(233)	47,797
Other comprehensive income						
Exchange differences on translation of financial statements of overseas subsidiaries	-	21,366	-	21,366	-	21,366
Total comprehensive income for the period	-	21,366	48,030	69,396	(233)	69,163
Issue of new shares						
– upon conversion of convertible notes	3,913	96,661	-	100,574	-	100,574
– upon placing of shares	13,000	63,525	-	76,525	-	76,525
– upon exercise of bonus warrants	3,345	13,380	-	16,725	-	16,725
At 30 June 2010	<u>86,421</u>	<u>1,624,939</u>	<u>(273,498)</u>	<u>1,437,862</u>	<u>(233)</u>	<u>1,437,629</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 30 June 2011*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(8,023)</b>	(18,938)
Net cash used in investing activities	<b>(55,821)</b>	(7,277)
Net cash (used in)/generated from financing activities	<b>(110,753)</b>	24,919
Net decrease in cash and cash equivalents	<b>(174,597)</b>	(1,296)
Cash and cash equivalents at beginning of period	<b>346,803</b>	39,126
Effect of foreign exchange rate changes	<b>(697)</b>	(823)
Cash and cash equivalents at end of period	<b>171,509</b>	37,007

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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”.

### 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 value.

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 2010 except for the following amendments and interpretation (“**New HKFRSs**”) issued by the HKICPA which have been issued but are not yet effective.

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets <sup>1</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 10	Consolidated financial statements <sup>2</sup>
HKFRS 11	Joint arrangement <sup>2</sup>
HKFRS 12	Disclosure of interests in other entities <sup>2</sup>
HKFRS 13	Fair value measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of items of other comprehensive income <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee benefits <sup>2</sup>
HKAS 27 (Revised 2011)	Separate financial statements <sup>2</sup>
HKAS 28 (Revised 2011)	Investments in associates and joint ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012

### 3. SEGMENT INFORMATION

The Group’ operating segments, based on information reported to the board of directors of the Company (the chief operating decision maker) (the “**CODM**”) for the purposes of resource allocation and performance assessment are as follows:

Continuing operations:

- Electronic components
- Coalbed methane
- Treasury (i.e. securities trading and money lending)

Discontinued operation (note 7):

- Natural gas

**3. SEGMENT INFORMATION (Continued)**

**(a) Segment results**

For the purpose of assessing segment performance and allocating resources between segments, the CODM monitors the results attributable to each reportable segment on the following bases:

Segment results represent the results from each segment without allocation of central administration costs (i.e. directors' remuneration and finance costs). Taxation charge is not allocated to reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker is set out below:

	Continuing operations				Discontinued operation	Total
	Electronic components	Coalbed methane	Treasury	Sub-total	Natural gas	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2011 (unaudited)						
Reportable segment revenue from external customers	16,436	1,389	6,600	24,425	-	24,425
Inter-segment revenue	-	-	-	-	-	-
<b>Reportable segment revenue</b>	<b>16,436</b>	<b>1,389</b>	<b>6,600</b>	<b>24,425</b>	<b>-</b>	<b>24,425</b>
<b>Reporting segment results</b>	<b>(353)</b>	<b>(49,969)</b>	<b>5,955</b>	<b>(44,367)</b>	<b>34,419</b>	<b>(9,948)</b>
Amortisation for the period	-	65,656	-	65,656	-	65,656
Depreciation for the period	5	1,405	19	1,429	-	1,429
Gain on early redemption of convertible notes	-	(891)	-	(891)	-	(891)
Fair value change of financial assets at fair value through profit or loss	-	-	585	585	-	585
Other income	-	(1,466)	(867)	(2,333)	-	(2,333)
Interest expenses	33	6,926	-	6,959	-	6,959
Major non-cash item:						
- Fair value gain of convertible notes' embedded derivatives	-	(25,286)	-	(25,286)	-	(25,286)

3. SEGMENT INFORMATION (Continued)

(a) Segment results (continued)

	Continuing operations				Discontinued operation	Total HK\$'000
	Electronic components HK\$'000	Coalbed methane HK\$'000	Treasury HK\$'000	Sub-total HK\$'000	Natural gas HK\$'000	
For the six months ended 30 June 2010 (unaudited)						
Reportable segment revenue						
from external customers	21,933	1,303	–	23,236	–	23,236
Inter-segment revenue	–	–	–	–	–	–
<b>Reportable segment revenue</b>	<b>21,933</b>	<b>1,303</b>	<b>–</b>	<b>23,236</b>	<b>–</b>	<b>23,236</b>
<b>Reportable segment results</b>	<b>(612)</b>	<b>45,083</b>	<b>(240)</b>	<b>44,231</b>	<b>–</b>	<b>44,231</b>
Amortisation for the period	–	62,737	–	62,737	–	62,737
Depreciation for the period	6	1,321	3	1,330	–	1,330
Net gain on restructure of promissory notes	–	(9,551)	–	(9,551)	–	(9,551)
Interest expenses	29	26,514	–	26,543	–	26,543
Fair value change of financial assets at fair value through profit or loss	–	–	216	216	–	216
Major non-cash item:						
– Fair value gain of convertible notes' embedded derivatives	–	(128,478)	–	(128,478)	–	(128,478)



3. SEGMENT INFORMATION (Continued)

(b) Reconciliations of reportable segment revenue, profit or loss

	Continuing operations	
	30 June 2011 HK\$'000 (Unaudited)	30 June 2010 HK\$'000 (Unaudited)
<b>Revenue</b>		
<b>Continuing operations</b>		
Reportable segment revenue	24,425	23,236
Elimination of inter-segment revenue	—	—
Consolidated turnover from continuing operations	24,425	23,236
<b>Discontinued operation</b>		
Reportable segment revenue	—	—
Elimination of inter-segment revenue	—	—
Consolidated turnover from discontinued operation	—	—
<b>Profit or loss</b>		
<b>Continuing operations</b>		
Reportable segment (loss)/profit	(44,367)	44,231
Other income	253	58
Unallocated head office and corporate expenses	(10,521)	(12,176)
Consolidated (loss)/profit from continuing operations	(54,635)	32,113
<b>Discontinued operation</b>		
Reportable segment profit	34,419	—

(c) Geographical information

	Continuing operations		Discontinued operation	Total HK\$'000
	Hong Kong HK\$'000	PRC HK\$'000	PRC HK\$'000	
For the six months ended 30 June 2011 (Unaudited)				
Revenue	23,036	1,389	—	24,425
For the six months ended 30 June 2010 (Unaudited)				
Revenue	21,933	1,303	—	23,236

**4. (LOSS)/PROFIT BEFORE TAXATION–UNAUDITED**

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

	Continuing operations	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)		
– Salaries and other emoluments	9,272	10,511
– Contributions to retirement scheme	161	160
	<b>9,433</b>	10,671
Depreciation	2,058	1,678
Amortisation on production sharing contract	65,656	62,737
	<b>67,714</b>	64,415
Operating lease rental expenses for land and buildings	1,605	1,885
Loss on disposal of property, plant and equipment	–	117
	<b>–</b>	<b>117</b>

**5. FINANCE COSTS–UNAUDITED**

	Continuing operations	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Interest expenses on the following borrowings wholly repayable within five years:		
– Imputed interest on promissory notes	–	19,103
– Imputed interest on convertible notes	6,926	7,411
– Interest on bank overdrafts	33	29
	<b>6,959</b>	26,543

6. INCOME TAX–UNAUDITED

	Continuing operations Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Current taxation		
Provision for the period	–	–
Deferred tax ( <i>note 17</i> )	16,414	15,684
	<u>16,414</u>	<u>15,684</u>
	<u><u>16,414</u></u>	<u><u>15,684</u></u>

Notes:

- (a) No provision for Hong Kong Profits Tax and overseas taxation has been made in the condensed consolidated financial statements, as the Group had no assessable profits in Hong Kong and the countries in which the Group operates, during the current and prior periods.
- (b) The subsidiaries in the People's Republic of China (the "PRC") are subject to an income tax rate of 25% (2010: 25%), being the current preferential tax rate applicable.
- (c) Deferred tax arose from the reversal of the temporary difference arising from the amortisation of the production sharing contract in respect of PSC as referred to in note 10 to the financial statements.

7. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 24 March 2011, the Company completed the disposal of the entire equity interests in Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") and 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") and Hong Kong Sanxia Gas Investment Limited, at a cash consideration of RMB50 million (approximately HK\$59,400,000) to a former director of the Company, Mr Tan Chuanrong.

	HK\$'000
Assets of a discontinued operation and disposal group classified as held for sale	97,117
Liabilities of a discontinued operation and disposal group classified as held for sale	(45,741)
Net assets disposed of	51,376
Direct cost relating to the disposal	1,892
Release of exchange reserve	(28,287)
Gain on disposal	34,419
Total cash consideration	<u><u>59,400</u></u>

## NEW SMART ENERGY GROUP LIMITED

### 8. (LOSS)/EARNINGS PER SHARE

(a) **Basic**

The calculation of basic (loss)/earnings per share is based on the (loss)/profit 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	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit used in the calculation of total basic (loss)/earnings per share from continuing and discontinued operations	(3,661)	48,030
Profit used in the calculation of basic (loss)/earnings per share from discontinued operation	34,419	–
(Loss)/profit used in the calculation of basic (loss)/earnings per share from continuing operations	(38,080)	48,030
	<u>                    </u>	<u>                    </u>
		(Restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share:		
Issued ordinary shares at 1 January	6,638,473,206	2,414,844,037
Effect of conversion of convertible notes	–	64,347,844
Effect of exercise of bonus warrants	–	47,836,627
Effect of placing subscription	–	437,983,864
	<u>                    </u>	<u>                    </u>
Weighted average number of ordinary shares at 30 June	6,638,473,206	2,965,012,372
	<u>                    </u>	<u>                    </u>

(b) **Diluted**

The diluted (loss)/earnings per share for the period ended 30 June 2011 and 2010 is same as the basic (loss)/earnings per share as the conversion price of outstanding convertible notes 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.

### 9. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Property, plant and equipment
	<i>HK\$'000</i>
<b>Six months ended 30 June 2011</b>	
Carrying amount as at 1 January 2011	42,086
Changes in exchange rates	786
Additions	2,501
Depreciation	(2,058)
	<u>                    </u>
Carrying amount as at 30 June 2011	43,315
	<u>                    </u>

10. INTANGIBLE ASSETS

	Production sharing contract ("PSC") <i>HK\$'000</i>
<b>Cost</b>	
At 1 January 2010	3,753,839
Exchange adjustments	142,587
	<hr/>
At 31 December 2010 and 1 January 2011	3,896,426
Exchange adjustments	77,802
	<hr/>
At 30 June 2011	3,974,228
	<hr/> <hr/>
<b>Accumulated amortisation</b>	
At 1 January 2010	135,555
Charge for the year	126,568
Exchange adjustments	8,462
	<hr/>
At 31 December 2010 and 1 January 2011	270,585
Charge for the period	65,656
Exchange adjustments	5,985
	<hr/>
At 30 June 2011	342,226
	<hr/> <hr/>
<b>Carrying amount</b>	
At 30 June 2011 (unaudited)	3,632,002
	<hr/> <hr/>
At 31 December 2010 (audited)	3,625,841
	<hr/> <hr/>

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2011 <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Equity securities held for trading:		
– Listed in Hong Kong (a)	15,366	–
Convertible notes, unlisted (b)	9,877	–
	<hr/>	<hr/>
	25,243	–
	<hr/> <hr/>	<hr/> <hr/>

**11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS***(Continued)*

- (a) The fair values for the above listed securities are determined by reference to their quoted market bid prices available on the relevant exchange at the end of the reporting period.
- (b) The fair values of the debt element and the conversion options element of the convertible notes have been determined by a firm of independent professional valuers, Asset Appraisal Limited.

Fair value loss of HK\$585,000 has been recognised in the condensed consolidated income statement for the period ended 30 June 2011.

**12. TRADE AND OTHER RECEIVABLES**

	<b>Unaudited</b> <b>30 June</b> <b>2011</b> <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Trade debtors	<b>2,646</b>	3,652
Provision for impairment	<b>(332)</b>	(332)
	<b>2,314</b>	3,320
Other debtors ( <i>note (a)</i> )	<b>85,468</b>	801
Deposits and prepayments	<b>825</b>	1,917
	<b>88,607</b>	6,038

*Note:*

- (a) Included in other debtors is an aggregate amount of HK\$85,000,000 which was placed at the escrow account of a firm of solicitors, which acts as an escrow agent for the Company. The Group has instituted legal proceedings against the escrow agent for the return of the escrow sum of HK\$85,000,000 as referred to in note 20 (a). The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sum can be recovered in full, and therefore, no impairment is required as at 30 June 2011.

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

**12. TRADE AND OTHER RECEIVABLES** (*Continued*)

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

	<b>Unaudited</b> <b>30 June</b> <b>2011</b> <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Below 30 days	<b>1,950</b>	2,910
30 to 90 days	<b>327</b>	392
91 to 180 days	<b>16</b>	18
Over 180 days	<b>21</b>	–
	<b>2,314</b>	3,320

**13. SHARE CAPITAL**

	<b>Number of</b> <b>ordinary shares</b>	<b>Nominal value</b> <b>of ordinary</b> <b>shares</b> <i>HK\$'000</i>
Authorised:		
At 31 December 2010 and 30 June 2011 of HK\$0.04 each	50,000,000,000	2,000,000
Issued and fully paid:		
At 31 December 2010 and 30 June 2011 of HK\$0.04 each	6,638,473,206	265,539

# NEW SMART ENERGY GROUP LIMITED

## 14. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special capital reserve HK\$'000	Other capital reserve HK\$'000	Investment reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2011	1,350,151	5,318	492,172	1,805	949	146,494	6,170	(311,086)	1,691,973
Transfer	-	-	-	-	-	-	(6,170)	6,170	-
Loss for the period	-	-	-	-	-	-	-	(3,661)	(3,661)
Exchange differences :									
- on translation of financial statements of overseas subsidiaries	-	-	-	-	-	53,559	-	-	53,559
- release upon disposal of subsidiaries	-	-	-	-	-	(28,287)	-	-	(28,287)
Total comprehensive income for the period	-	-	-	-	-	25,272	-	(3,661)	21,611
At 30 June 2011	1,350,151	5,318	492,172	1,805	949	171,766	-	(308,577)	1,713,584
1 January 2010	876,044	5,318	492,172	1,805	949	47,549	6,170	(321,528)	1,108,479
Issue of new shares:									
- upon conversion of convertible notes	96,661	-	-	-	-	-	-	-	96,661
- upon placing of shares	63,524	-	-	-	-	-	-	-	63,524
- upon exercise of bonus warrants	29,945	-	-	-	-	-	-	-	29,945
- upon rights issue	283,977	-	-	-	-	-	-	-	283,977
Profit for the year	-	-	-	-	-	-	-	10,442	10,442
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-	-	-	98,945	-	-	98,945
Total comprehensive income for the year	-	-	-	-	-	98,945	-	10,442	109,387
At 31 December 2010	1,350,151	5,318	492,172	1,805	949	146,494	6,170	(311,086)	1,691,973



## 15. OTHER BORROWINGS

Other borrowings are related to the CBM business under the PSC (note 10) payable to an independent third party, unsecured and repayable on demand.

## 16. CONVERTIBLE NOTES

On 26 November 2008, the Company issued convertible notes 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 notes carry zero coupon rate and 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 notes. The adjusted conversion price is HK\$0.76 after the share consolidation and rights issue completed in 2010.

As the functional currency of the Company is Renminbi, the conversion option of the convertible notes 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 notes were determined as of the date of issue by an independent professional valuer, Asset Appraisal Limited. The fair value of the convertible notes as at the date of issue was HK\$2,000,000,000 comprising a liability portion of HK\$1,875,030,000 and an embedded derivative portion of HK\$124,970,000. As at 30 June 2011, the fair value of the embedded derivatives portion of the convertible notes was revalued by an independent professional valuer, BMI Appraisals Limited, at HK\$4,910,000. The decrease in fair value of the embedded derivatives of HK\$25,286,000 has been recognised and credited to the condensed consolidated income statement for the period ended 30 June 2011. On 20 April 2011, the Company early redeemed convertible notes with principal value of HK\$112,417,000 and carrying amount of HK\$110,808,000, with a discount of HK\$2,500,000 provided by the convertible note holder, resulting in a gain on early redemption of HK\$891,000 recognized in condensed consolidated income statement for the period ended 30 June 2011.

**16. CONVERTIBLE NOTES** *(Continued)*

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

	<b>Embedded derivatives portion</b> <i>HK\$'000</i>	<b>Liability portion</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Carrying amount of convertible notes (with principal value of HK\$1,252,417,000) as at 1 January 2010	226,525	1,190,990	1,417,515
Imputed interest charged to condensed consolidated income statement	–	14,651	14,651
Decrease in fair value credited to condensed consolidated income statement	(179,550)	–	(179,550)
Conversion into new shares	(14,685)	(85,889)	(100,574)
Carrying amount of convertible notes (with principal value of HK\$1,162,417,000) as at 31 December 2010 and 1 January 2011	32,290	1,119,752	1,152,042
Imputed interest charged to condensed consolidated income statement	–	6,926	6,926
Decrease in fair value credited to condensed consolidated income statement	(25,286)	–	(25,286)
Redemption	(2,094)	(108,714)	(110,808)
Carrying amount of convertible notes (with principal value of HK\$1,050,000,000) as at 30 June 2011	4,910	1,017,964	1,022,874

**17. DEFERRED TAX LIABILITIES**

	<i>HK\$'000</i>
At 1 January 2010	904,571
Credited to condensed consolidated income statement	(31,642)
Exchange adjustments	33,531
At 31 December 2010 and 1 January 2011	906,460
Credited to condensed consolidated income statement	(16,414)
Exchange adjustments	17,955
At 30 June 2011	908,001

At 30 June 2011, the recognised deferred tax liabilities represented the tax effect of the fair value adjustments on the business combination completed in 2008.

**18. TRADE AND OTHER PAYABLES**

	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
Trade creditors	9,298	9,843
Other creditors	24,729	26,599
Accrued operating expenses	331	2,767
	<b>34,358</b>	<b>39,209</b>

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

	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
Below 30 days	2,789	5,026
30 to 90 days	5,665	3,893
91 to 180 days	246	564
Over 180 days	598	360
	<b>9,298</b>	<b>9,843</b>

**19. COMMITMENTS**

(i) **Capital commitments**

Capital commitments in respect of the production sharing contract as at 30 June 2011 not provided for in the financial statements were as follows:

	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
Production sharing contract:		
– Authorised and contracted for	9,970	12,467
– Contracted but not provided for	24,620	22,462
	<b>34,590</b>	<b>34,929</b>

**19. COMMITMENTS** (*Continued*)

(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 are payable in the following years:

	<b>Unaudited 30 June 2011 HK\$'000</b>	Audited 31 December 2010 HK\$'000
Within 1 year	1,573	2,741
After 1 year but within 5 years	188	578
	<b>1,761</b>	<b>3,319</b>

**20. CONTINGENT LIABILITIES**

(a) **Legal contingencies**

The Group is the plaintiff in legal proceedings against a firm of solicitors in Hong Kong, whom acts as an escrow agent for the Company, for the return of an aggregate escrow amount of HK\$85,000,000 placed with the escrow agent. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sum can be recovered in full, and therefore, no impairment is required as at 30 June 2011.

(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.

**21. EVENTS AFTER THE END OF THE INTERIM PERIOD**

Subsequent to the period end date, the Company proposed to implement the share consolidation on the basis that every two issued and unissued existing shares with a par value of HK\$0.04 each will be consolidated into one consolidated share with a par value of HK\$0.08 each. The share consolidation is subject to the shareholders' approval at the extraordinary general meeting to be held on 16 September 2011. Subject to the share consolidation becoming effective, the Company proposes to raise approximately HK\$325.29 million by issuing 3,319,236,603 offer shares by way of open offer for every one consolidated share held on record date. The estimated net proceeds of the open offer which will be approximately HK\$312 million will be utilised for the partial payment of the convertible notes and the general working capital of the Group.