# 2011 Annual Report

New Smart Group

**NEW SMART ENERGY GROUP LIMITED**

(Stock code : 91)

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Tong Nai Kan *(Chairman)*
Cheng Wai Keung
Lo Tai In
Tam Tak Wah
Tsang Ching Man

### Independent Non-Executive Directors

Chan Tsz Kit
Chan Yim Por Bonnie
Wang Li

## AUDIT COMMITTEE

Chan Tsz Kit *(Chairman)*
Chan Yim Por Bonnie
Wang Li

## REMUNERATION COMMITTEE

Chan Yim Por Bonnie *(Chairman)*
Chan Tsz Kit
Wang Li

## NOMINATION COMMITTEE

Chan Tsz Kit *(Chairman)*
Chan Yim Por Bonnie
Wang Li

## COMPANY SECRETARY

Tsang Ching Man

## PRINCIPAL BANKERS

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

## SOLICITORS

D.S. Cheung & Co., Solicitors

## AUDITOR

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

## REGISTERED OFFICE

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

## SHARE REGISTRARS

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

## LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

## COMPANY WEBSITE

www.newsmartgroup.com

**NOTICE IS HEREBY GIVEN** that the annual general meeting (the "Meeting") of New Smart Energy Group Limited (the "Company") will be held at The Lily Room of Ramada Hong Kong Hotel at 3rd Floor, 308 Des Voeux Road West, Hong Kong on Tuesday, 29 May 2012 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditor for the year ended 31 December 2011.

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

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

**ORDINARY RESOLUTIONS**

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

(A) "**THAT**:

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

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

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

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

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

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

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

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

(d) for the purpose of this resolution:

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

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

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

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

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

(B) "**THAT**:

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

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

(c) for the purpose of this resolution:

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

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

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

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

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

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

“**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange granting the approval of the listing of, and permission to deal in, any Shares of the Company to be issued pursuant to the exercise of options which may be granted under the Refreshed Scheme Limit (as defined below), the refreshment of the limit in respect of the granting of share options under the share option scheme of the Company adopted on 29 December 2004 (the “Share Option Scheme”), up to a new 10% limit (the “Refreshed Scheme Limit”) be approved provided that:

(i) the total number of Shares of the Company which may be issued upon exercise of options to be granted under the Share Option Scheme on or after the date of the passing of this resolution (the “Refreshed Date”), together with all options to be granted under any other share option scheme(s) of the Company on or after the Refreshed Date, must not exceed 10% of the number of Shares of the Company in issue as at the Refreshed Date; and

(ii) options granted prior to the Refreshed Date under the Share Option Scheme or any other share option scheme(s) of the Company (including, without limitation those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme or such other scheme(s) of the Company) shall not be counted for the purpose of calculating the Refreshed Scheme Limit, and the Directors be and are hereby authorised to grant options under the Share Option Scheme up to the Refreshed Scheme Limit and to exercise all the powers of the Company to allot, issue and deal with Shares of the Company pursuant to the exercise of such options.”

By Order of the Board
**Tsang Ching Man**
*Company Secretary*

Hong Kong, 17 April 2012

*Notes:*

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

2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the office of the Company's share registrars, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for holding the Meeting or adjourned meeting thereof.

3. With reference to resolution 2 set out in this notice, Mr. Chan Yim Por Bonnie is due to retire at the Meeting and, being eligible, offer himself for re-election pursuant to Article 110 of the Company's Articles of Association. Mr. Tam Tak Wah, Mr. Chan Tsz Kit and Mr. Wang Li are due to retire at the Meeting and, being eligible, offer themselves for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association. Neither the re-elected Directors have entered into any service contract with the Company. The details of the re-elected Directors are set out in a circular which will be sent to members together with the Company's 2011 Annual Report.

4. With reference to resolutions 4(A) to 4(C) set out in this notice, the Directors wish to state that they have no immediate plans to repurchase any existing Shares or to issue any new Shares pursuant to the relevant mandate. An explanatory statement containing further details regarding the general mandate to repurchase Shares as referred to in resolution 4(B) is set out in a circular which will be sent to members together with the Company's 2011 Annual Report.

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

*Dear Shareholders,*

On behalf of the Board of Directors ("**the Board**") of New Smart Energy Group Limited ("**New Smart Energy**" or "**the Group**"), I hereby present the Annual Report for the financial year ended 31 December 2011.

## BUSINESS REVIEW

### Coalbed Methane ("CBM") Business

The Group, 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 approximately 30:70.

Since late 2010, Can-Elite engaged professionals to conduct various experiments on these experimental wells and analyze the data collected in order to improve the existing drilling methods and exploitation technologies. They have already performed formation testing, well improvement work and experimental draining and collection, and have formulated a drilling and exploration proposal for new wells. In early 2011, our experts have conducted a detailed analysis on the geological information of Su'nan area and the existing drilling information for CBM wells, and have confirmed the resources of that area. They have also provided a drilling work enhancement proposal.

Since then, Can-Elite worked on an enhancement project to 1 of the 5 exploration experimental wells which were completed in 2010, according to the drilling work enhancement proposal and the drilling of 3 more exploration experimental wells which were started in late 2011 according to the new well drilling proposal.

Besides, Can-Elite has signed an agreement with China United in October of 2011, pursuant to which both parties agreed China United to commence drilling work in the Contract Area and to explore new technology for exploring and developing CBM, aiming at speeding up the exploration process of the Contract Area. In December 2011, China United has drilled a parametric well within the Contract Area, the drilling has finished to date. Information gathered from the drilling help us to have a thorough understanding on the geological condition of the surrounding area, thus minimizing the risk we may face during exploration.

Up to the report date, the Group had 12 experimental wells, of which 7 wells were already under production, and 1 parametric well in the Contract Area. And there are another 3 experimental wells under construction.

Under the exploration stage, the CBM business contributed about HK$2,847,000 of the revenue in this year (2010: HK$2,458,000). A loss of HK$549,910,000 was recorded mainly resulting from the amortization of PSC of HK$132,870,000 (2010: HK$126,568,000) and the impairment loss on PSC amounted to HK$424,306,000 (2010: Nil). The impairment loss was mainly due to the change on the implementation of the business plan for the exploration and exploitation of the CBM. The plan has been updated regularly by taking into account the data and information obtained from the works conducted by our team of professionals during the year. Based on the information and statistics gathered up to date, the time span of drilling wells is extended in order to capture a better economic benefits.

With the effort of the on-going progress in exploration, further investment in exploitation technology research and the participation of China United, it is expected that the amount of CBM extracted from the existing drilled wells can reached our target capacity in next few years. By that time, the Company shall proceed to construct pipelines connecting the wells with our target customers, pre-sale preparation will also be commenced. Furthermore, our Company will make use of the existing drilled wells to apply for a reserve estimation report for part of the area, and submit the said report to the National Reserve Estimation Committee (國家儲量評估委員會). The said report shall be used to apply for the approval of a development plan from the National Development and Reform Commission (中華人民共和國國家發展和改革委員會), which shall allow us to commence commercial development for that part of the area.

**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**"), engages in securities and debts trading in Hong Kong with a view for short to medium term profit. For the year ended 31 December 2011, Magic Chance invested in various financial instruments amounted to approximately HK$34,000,000. This segment recorded a loss of HK$2,280,000 (2010: profit of HK$640,000).

New Smart Credit Service Limited ("**New Smart Credit**"), another wholly-owned subsidiary of the Group, carried on money lending business in Hong Kong. The business included secured loan and unsecured loan. The Group has established strict internal policy for granting and on-going review of the loan so as to ensure the business risk is manageable.

For the year ended 31 December 2011, this segment generated revenue with amount of approximately HK$10,012,000 (2010: Nil). Due to the maturity of the Hong Kong financing and property market, the demand of loans is expected to increase substantially. The Board believes that the money lending business will give the Group an opportunity to obtain a higher return for the fund under the current low interest rate environment.

**Electronic Components Business**

The Group, 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 PRC. As the global markets continued to be affected by the lackluster rebound in US economic growth and the ongoing European debt crisis, electronic components business faced intense competition and the revenue was adversely affected. For the year ended 31 December 2011, this segment contributed HK$25,796,000 (2010: HK$43,065,000) to the Group and recorded a loss of HK$2,028,000 (2010: HK$1,139,000). The Group may consider streamlining its operation and adopting effective cost management measures to maintain its competitive edge.

## PROSPECTS

The PRC Ministry of Energy has announced the "Twelve Five-Year Plan for CBM Development and Utilization" (the "**Plan**") for the first time in December 2011, which has raised the development target for CBM industry significantly during the Twelve Five-Year period, it is expected that by 2015, the proved reserve of CBM will increased by 1,000 billion $m^3$; scale for surface development will reach 16 billion $m^3$/year; and the extraction and utilization volume for CBM will reach 14 billion $m^3$/year, and it is expected that the existing severe shortage in natural gas supply in China will be eased through enhancing the development and utilization scale of CBM.

The PRC Ministry of Energy has stated in the Plan that it will implement preferential taxation policy for CBM exploration enterprises, and will raise the standard for the subsidy for CBM extraction and utilization. The National Development and Reform Commission has also initiated a pilot scheme for natural gas pricing mechanism, which imply that the natural gas prices will increase at an accelerating speed. It is expected that the development prospect for non-conventional natural gas (such as CBM) during the Twelve Five-Year Period is promising, the whole CBM industry will enter into a whole new development period.

To capture with this opportunity, the Group is now planning to enhance its professional team in the CBM business with a view to position ourselves as a competent expertise in this industry. The Group is now in the preliminary stage to consider setting up its own energy technology company in the PRC so as to provide technical and expertise service to other CBM operators with a view to improve their production safety; expand the exploring scale; tackle environmental problems and alleviate the problem of natural gas shortage etc.

The Board expects that, when the CBM area in Anhui commences commercial production, the Group will have a remarkable improvement and will bring along satisfactory return to our shareholders.

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 still 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.

## APPRECIATION

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

**Tong Nai Kan**
*Chairman*

Hong Kong, 28 March 2012

**FINANCIAL REVIEW**

The Group's turnover of continuing operations for the year was HK$48,264,000 (2010: HK$48,067,000), representing an increase of 0.41%. Such slight increase of turnover was due to the contribution from the treasury business where the Group engaged in securities and debts trading and money lending business in Hong Kong despite the substantial decrease of contribution from the sales of electronic components. The turnover generated by the sales of electronic components decreased by 40.10% from HK$43,065,000 in 2010 to HK$25,796,000 in 2011, representing 53.45% of the Group's turnover. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiary ("**CBM Operating Subsidiary**") and treasury segment contributed HK$2,847,000 (2010: HK$2,458,000) and HK$19,621,000 (2010: HK$2,544,000) to the Group in 2011, representing 5.90% and 40.65% of the Group's turnover respectively. The Group's gross profit of continuing operations increased by 72.45% to HK$13,111,000 from HK$7,603,000 in 2010.

The Group's loss from continuing operations for the year was HK$428,488,000 (2010: profit of HK$9,969,000). Substantial part of the Group's performance was mainly due to the accounting treatments of various items, such as the impairment loss on production sharing contract amounted to HK$424,306,000 (2010: Nil) and available-for-sale financial assets amounted to HK$692,000 (2010: Nil), gain on early redemption of convertible notes amounted to HK$1,587,000 (2010: Nil), fair value gain on convertible notes' embedded derivatives amounted to HK$29,978,000 (2010: HK$179,550,000), imputed interest on convertible notes amounted to HK$12,940,000 (2010: HK$14,651,000), amortization of the PSC in respect of CBM amounted to HK$132,870,000 (2010: HK$126,568,000), and the tax credit amounted to HK$136,616,000 (2010: HK$31,642,000). The aggregate net result of the abovementioned accounting loss for 2011 is HK$402,627,000 (2010: profit of HK$45,251,000).

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, if excluding those accounting profit and loss, was HK$25,861,000 and HK$35,282,000 respectively. The substantial decrease in loss of 26.70% was mainly due to the contribution from the treasury segment, i.e. in particular, the money lending businesses, with a comparatively high profit margin.

The Group recorded a loss attributable to owners of the Group of approximately HK$393,397,000 (2010: profit of HK$10,442,000), and basic and diluted loss per share from continuing and discontinuing operations was approximately HK9.99 cents (2010: earnings per share of HK0.61 cents (as restated)). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had current assets of HK$308,368,000 (2010: HK$449,958,000) and current liabilities of HK$57,436,000 (2010: HK$104,985,000) and cash and bank balances of HK$167,752,000 (2010: HK$346,803,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 536.89% (2010: 428.59%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 23.68% (2010: 29.84%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the 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 have been used for the working capital of the Group.

In April and October 2011, convertible notes with aggregate principal amount of HK$392,417,000 were early redeemed by cash of HK$381,917,000 with a discount of HK$10,500,000 provided by the convertible note holder.

In October 2011, the Company successfully raised net proceeds of approximately HK$313,000,000 by issuing 3,319,236,603 new ordinary shares of HK$0.08 each on the basis of one offer share for every one share held at a subscription price of HK$0.098 per offer share under an open offer. Net proceeds were primarily used for the partial repayment of convertible notes and the general working capital of the Group.

The Directors believed that the above mentioned disposal, early redemption of convertible notes and the open offer 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.

## COMMITMENTS

Details of the commitments of the Group are set out in note 33.

## 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.

## CONTINGENCIES

Save as disclosed in note 34, the Group had no other contingencies as at 31 December 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. The Company had filed statements of claims and will pursue the cases vigorously.

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.

## CHARGE ON ASSETS

The short-term bank deposits, amounted to HK$3,150,000, have been pledged as securities for banking facilities granted to the continuing operations of the Group for the year ended 31 December 2011.

## SHARE CONSOLIDATION

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 16 September 2011, the proposed share consolidation on the basis that every two issued and unissued shares of HK$0.04 each consolidated into one consolidated share of HK$0.08 each was approved. The share consolidation was completed and became effective on 19 September 2011.

## OPEN OFFER

In October 2011, the Company raised net proceeds of approximately HK$313,000,000 by issuing 3,319,236,603 new ordinary shares of HK$0.08 each on the basis of one offer share for every one share held at a subscription price of HK$0.098 per offer share under an open offer. Net proceeds were primarily used for the partial repayment of convertible notes and the general working capital of the Group.

## EVENTS AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group had 56 employees, of which 30 were in Hong Kong and 26 were in the 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 the PRC.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in note 12, the Group had no other material acquisition and disposal of subsidiaries during the year ended 31 December 2011.

## EXECUTIVE DIRECTORS

**Tong Nai Kan**, aged 53, was appointed as an executive Director of the Company in March 1999 and was elected as chairman of the board of directors of the Company in May 2000. He also assumed the roles of the managing Director of the Company from March 1999 to November 2007 and the chief executive officer from February 2008 to August 2008 and from September 2009 onwards. Mr. Tong is currently the executive director of Rainbow Brothers Holdings Limited (stock code: 33), a company listed on the Main Board of the Stock Exchange. Mr. Tong has extensive experience in investment in various businesses in Mainland China and has participated in energy-related businesses in recent few years. He was awarded as the 11th World Outstanding Chinese Award from the World Chinese Business Foundation and the Honorary Doctoral Degrees from the International American University.

**Cheng Wai Keung**, aged 46, was appointed as an executive Director of the Company in November 2010. He obtained a bachelor's degree in business administration from Hong Kong Baptist University in the early 1990's. Mr. Cheng has over 20 years experience in Hong Kong financial market. He has extensive experience in investment and securities dealing and held senior positions in sales and marketing of various financial institutions in Hong Kong. Mr. Cheng has been appointed as the public relations manager of the Company since May 2010.

**Lo Tai In**, aged 47, was appointed as an executive Director of the Company in August 2009. He started his career in August 1991 as a junior negotiator in a property consultant firm. From May 1993 to March 1995, Mr. Lo was mainly involved in securities and forex dealings. From April 1995 onwards, he held positions in various trading companies in Hong Kong, mainly involving in accounting and corporate development.

**Tam Tak Wah**, aged 46, was appointed as an executive Director and the corporate development director of the Company in September 2009. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 25 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Siberian Mining Group Company Limited, Tech Pro Technology Development Limited and China Packaging Group Company Limited, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited and Goldenway, Inc, a company the common stock of which are traded in the OTCQB of the U.S.A. He was an independent non-executive director of National Arts Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange during the period from 8 November 2004 to 23 June 2009.

**Tsang Ching Man**, aged 31, was appointed as an executive Director of the Company in August 2009. She is also the company secretary, the authorised representative and the chief financial officer of the Company. Ms. Tsang obtained a Bachelor of Business Administration (Hons) degree in Accountancy from City University of Hong Kong in 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Tsang started her career in July 2004 mainly involved in audit assignment in audit firms.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Chan Tsz Kit**, age 36, was appointed as an independent non-executive Director of the Company in September 2009. He is also the chairman and a member of the Audit Committee, a member of the Remuneration Committee and the chairman and a member of the Nomination Committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has 10 years' working experience in public accounting and 5 years' experience in providing professional services to listed companies in the United States. Mr. Chan was a partner in a CPA firm Albert Wong & Co from 2007 to 2010. Now he is the chief financial officer of a company listed on the NASDAQ Exchange in the United States.

**Chan Yim Por Bonnie**, aged 45, was appointed as an independent non-executive Director of the Company in July 2011. He is also the chairman and a member of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is a solicitor and notary public (practicing) in Hong Kong who was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is currently a member of The Law Society of Hong Kong as well as the Hong Kong Society of Notaries. He obtained a Bachelor's Degree of Laws in 1988 and a Master's Degree of Laws in 1993 and has been practicing as a solicitor in the commercial field in Hong Kong since 1991. He established his own firm, Messrs. Yeung & Chan, Solicitors in 1996 and is now a senior partner of the firm. He has been a part time lecturer and tutor of the Postgraduate Certificate in Laws in The University of Hong Kong since 2002 and was admitted as an adjunct lecturer of the HKU School of Professional and Continuing Education in 2009.

**Wang Li**, aged 29, was appointed as an independent non-executive Director of the Company in September 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics degree from Peking University in 2005 and a Master in Finance degree from the University of St Andrews, UK in 2008. He served as a research assistant of Skyone Securities Company Ltd. from February 2006 to August 2006. Mr. Wang is currently a trust manager of Citic Trust Co. Ltd..

## CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board" or "Director(s)") of New Smart Energy Group Limited (the "Company") is pleased to present this Corporate Governance Report for the year ended 31 December 2011 (the "Year").

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

During the year, the Company complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with an exception of code provisions A.2.1, A.4.1, A.4.2 and E.1.2, details of which will be explained below.

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

## DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS RESPONSIBILITIES

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

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2010 and the six months ended 30 June 2011 respectively.

**Composition**

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

*Executive Directors:*

Mr. Tong Nai Kan *(Chairman)*
Mr. Cheng Wai Keung
Mr. Lo Tai In
Mr. Tam Tak Wah
Ms. Tsang Ching Man

*Independent non-executive Directors:*

Mr. Chan Tsz Kit
Mr. Chan Yim Por Bonnie
Mr. Wang Li

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

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

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

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

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

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

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

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

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

**Number of Meetings and Directors' Attendance**

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

| Name of Directors | Attendance/Number of Board Meetings |
|---|---|
| Mr. Tong Nai Kan | 37/44 |
| Mr. Cheng Wai Keung | 42/44 |
| Mr. Lo Tai In | 38/44 |
| Mr. Tam Tak Wah | 42/44 |
| Ms. Tsang Ching Man | 44/44 |
| Mr. Chan Tsz Kit | 29/44 |
| Mr. Chan Yim Por Bonnie *(Note 1)* | 14/16 |
| Mr. Wang Li | 28/44 |
| Ms. Pang Yuen Shan Christina *(Note 2)* | 20/23 |
| Mr. Wong Kwok Hong Simon *(Note 3)* | 14/27 |

*Notes:*

(1) Mr. Chan Yim Por Bonnie was appointed as the INED on 28 July 2011.

(2) Ms. Pang Yuen Shan Christina resigned as the executive Director on 15 June 2011.

(3) Mr. Wong Kwok Hong Simon resigned as the INED on 28 July 2011.

**Practices and Conduct of Meetings**

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

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

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

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

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

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

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

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.

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

## BOARD COMMITTEE

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

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

**Remuneration Committee**

Mr. Chan Yim Por Bonnie *(Chairman)*
Mr. Chan Tsz Kit
Mr. Wang Li

**Nomination Committee**

Mr. Chan Tsz Kit *(Chairman)*
Mr. Chan Yim Por Bonnie
Mr. Wang Li

**Audit Committee**

Mr. Chan Tsz Kit *(Chairman)*
Mr. Chan Yim Por Bonnie
Mr. Wang Li

**Remuneration Committee**

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

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

The Remuneration Committee held a meeting during the Year. The attendance record is set out below:

| **Name of Directors** | **Attendance/Number of Remuneration Committee Meeting** |
|---|---|
| Mr. Chan Yim Por Bonnie *(Chairman) (Note)* | N/A |
| Mr. Chan Tsz Kit | 1/1 |
| Mr. Wang Li | 1/1 |
| Mr. Wong Kwok Hong *Simon (Note)* | N/A |

*Note:* Mr. Chan Yim Por Bonnie was appointed, in place of Mr. Wong Kwok Hong Simon, as the chairman and a member of the Remuneration Committee on 28 July 2011.

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

**Nomination Committee**

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

The Nomination Committee is responsible for selection and approval of candidates for recommendation to the Board for appointment as Directors. In considering the nomination of Mr. Chan Yim Por Bonnie as an independent non-executive Director during the Year, the Nomination Committee would take into account his qualifications, in particular any qualifications as required in the Listing Rules, ability, working experience, leadership and professional ethics. Nomination Committee would subsequently recommend such nomination to the Board for approval for appointment.

The Nomination Committee held a meeting during the Year. The attendance record is set out below:

| **Name of Directors** | **Attendance/Number of Nomination Committee Meeting** |
|---|---|
| Mr. Chan Tsz Kit *(Chairman)* | 1/1 |
| Mr. Chan Yim Por Bonnie *(Note)* | N/A |
| Mr. Wang Li | 1/1 |
| Mr. Wong Kwok Hong Simon *(Note)* | N/A |

*Note:* Mr. Chan Yim Por Bonnie was appointed, in place of Mr. Wong Kwok Hong Simon, as a member of the Nomination Committee on 28 July 2011.

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

**Audit Committee**

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

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

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

| **Name of Directors** | **Attendance/Number of Audit Committee Meetings** |
|---|---|
| Mr. Chan Tsz Kit *(Chairman)* | 2/2 |
| Mr. Chan Yim Por Bonnie *(Note)* | 1/1 |
| Mr. Wang Li | 1/2 |
| Mr. Wong Kwok Hong Simon *(Note)* | 1/1 |

*Note:* Mr. Chan Yim Por Bonnie was appointed, in place of Mr. Wong Kwok Hong Simon, as a member of the Audit Committee on 28 July 2011.

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

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

## AUDITOR'S REMUNERATION

During the Year, the fees paid to the auditor of the Company, CCIF CPA Limited was HK$650,000 for the audit service and HK$220,000 for the non-audit services.

## INTERNAL CONTROLS

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

During the Year under review, with the assistance of an external advisor, the Company had conducted a high-level risk assessment and found that the Company has established high level controls of the strategic management, core business and resource management processes and risk management function that addressed those identified risk parameters. Based on the results, the external advisor noted no material or significant control design gaps.

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

**COMMUNICATION WITH SHAREHOLDERS (Deviation from Code Provision E.1.2)**

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

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

Details of poll voting procedures will be explained during the proceedings of meetings.

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

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 Year. Mr. Tam Tak Wah, the executive Director, was elected as the chairman of the AGM pursuant to the Articles.

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

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

On behalf of the Board
**Tong Nai Kan**
*Chairman*

Hong Kong, 28 March 2012

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 17 to the financial statements.

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out on page 35.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011.

## PROPERTY, PLANT AND EQUIPMENT

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 24 to the financial statements.

## CONVERTIBLE NOTES

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

## EVENTS AFTER THE REPORTING PERIOD

The group had no material event after the reporting period.

## DIRECTORS

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

| | |
|---|---|
| Tong Nai Kan | |
| Cheng Wai Keung | |
| Lo Tai In | |
| Tam Tak Wah | |
| Tsang Ching Man | |
| Chan Tsz Kit* | |
| Chan Yim Por Bonnie* | (appointed on 28 July 2011) |
| Wang Li* | |
| Pang Yuen Shan, Christina | (resigned on 15 June 2011) |
| Wong Kwok Hong Simon* | (resigned on 28 July 2011) |

* *independent non-executive Directors*

In accordance with Article 110 of the Articles of Association of the Company, Mr. Chan Yim Por Bonnie will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Articles 104 and 105 of the Articles of Association of the Company, Mr. Tam Tak Wah, Mr. Chan Tsz Kit and Mr. Wang Li will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## DIRECTORS' INTERESTS IN CONTRACT

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

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

As at 31 December 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 (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

**Long positions in shares of the Company**

| Name of Director | Nature of interest | Number of shares | Percentage |
|---|---|---|---|
| Tong Nai Kan | Corporate *(Note)* | 6,875,000 | 0.1% |

*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 31 December 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.

## ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 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. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

| Name | Nature of interest | Number of shares | Number of underlying shares | Percentage |
|---|---|---|---|---|
| HSBC International Trustee Limited | Trustee | 450,000,000 | – | 6.78% |
| Leung Yuk Kit | Corporate | 472,650,000 | – | 7.12% |
| New Alexander Limited *(Note)* | Beneficial | – | 620,967,741 | 9.35% |
| Smart Dragon Global Limited | Beneficial | 735,225,000 | – | 11.08% |
| Tung Tai Finance Limited | Beneficial | 450,000,000 | – | 6.78% |

*Note:* New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2013 in an aggregate outstanding principal amount of HK$770,000,000.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

## SHARE OPTIONS

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

**(1) Purpose**

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

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

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

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

**(2) Eligible participants**

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

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

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

**(3) Total number of shares available for issue**

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

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

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

At the annual general meeting of the Company held on 10 June 2009, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription of up to a total of 335,043,439 Shares, representing 10% of the issued share capital of the Company as at 10 June 2009.

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

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

**(4) Maximum entitlement of each eligible participant**

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

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

**(5) Option period**

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

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

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

**(7) Payment on acceptance of the Option**

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

**(8) Basis of determining the subscription price**

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

(i) the closing price of the shares on the date of grant;
(ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
(iii) the nominal value of a share.

**(9) The remaining life of the Scheme**

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

As at 31 December 2011, there was no outstanding share option granted to the eligible participants.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover of continuing operations during the year attributable to the Group's five largest customers was 56.54% of the Group's total turnover of continuing operation, of which 31.18% was made to the largest customer.

The aggregate purchase of continuing operations during the year attributable to the Group's five largest suppliers was 93.50% of the Group's total purchases of continuing operations, of which 72.74% was made from the largest supplier.

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

## ANNUAL CONFIRMATION OF INDEPENDENCE

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

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITOR

The financial statements have been audited by CCIF CPA Limited.

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

On behalf of the Board
**Tong Nai Kan**
*Chairman*

Hong Kong, 28 March 2012

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NEW SMART ENERGY GROUP LIMITED**

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of New Smart Energy Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that ate free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 March 2012

**Leung Chun Wa**
Practising Certificate Number P04963

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 6 | **48,264** | 48,067 |
| Revenue | 6 | **36,375** | 46,163 |
| Cost of sales | | **(23,264)** | (38,560) |
| Gross profit | | **13,111** | 7,603 |
| Other revenue and other income | 7 | **5,375** | 754 |
| Administrative expenses | | **(44,268)** | (43,596) |
| Impairment loss on production sharing contract | 16 | **(424,306)** | – |
| Amortisation of production sharing contract | 16 | **(132,870)** | (126,568) |
| Impairment loss on available-for-sale financial assets | | **(692)** | – |
| Fair value gain on convertible notes' embedded derivatives | 29 | **29,978** | 179,550 |
| Gain on redemption of convertible notes | 29 | **1,587** | – |
| Gain on restructuring the promissory notes | 30 | **–** | 21,278 |
| Loss on redemption of promissory notes | 30 | **–** | (20,137) |
| Finance costs | 8(a) | **(13,019)** | (40,557) |
| Loss before taxation | 8 | **(565,104)** | (21,673) |
| Income tax | 11(a) | **136,616** | 31,642 |
| (Loss)/profit for the year from continuing operations | 8 | **(428,488)** | 9,969 |
| **Discontinued operation** | | | |
| Gain from sale of disposal group held for sale | 12 | **34,419** | – |
| **(Loss)/profit for the year** | | **(394,069)** | 9,969 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | **(393,397)** | 10,442 |
| Non-controlling interests | | **(672)** | (473) |
| | | **(394,069)** | 9,969 |
| | | | (Restated) |
| **(Loss)/earnings per share** (expressed in HK cents) | 14 | | |
| From continuing and discontinued operations | | | |
| Basic and diluted | | **(9.99)** | 0.61 |
| From continuing operations | | | |
| Basic and diluted | | **(10.86)** | 0.61 |
| From discontinued operation | | | |
| Basic and diluted | | **0.87** | – |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(394,069)** | 9,969 |
| **Other comprehensive income** | | | |
| Exchange differences: | | | |
| – arising on translation | | **95,397** | 98,945 |
| – reclassification of exchange reserve included in gain on sale of disposal group held for sale | 12 | **(28,287)** | – |
| Reclassification adjustment for investment reserve included in impairment loss on available-for-sale financial assets | | **(949)** | – |
| **Total comprehensive (loss)/income for the year (net of tax)** | | **(327,908)** | 108,914 |
| **Attributable to:** | | | |
| Owners of the Company | | **(327,236)** | 109,387 |
| Non-controlling interests | | **(672)** | (473) |
| | | **(327,908)** | 108,914 |

The notes on pages 43 to 119 form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

| | Note | 2011<br>*HK$'000* | 2010<br>*HK$'000* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **44,242** | 42,086 |
| Intangible assets | 16 | **3,196,933** | 3,625,841 |
| Interest in an associate, net | 18 | **–** | – |
| Available-for-sale financial assets | 19 | **1,000** | 2,641 |
| | | **3,242,175** | 3,670,568 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 20 | **21,772** | – |
| Loan receivable | 21 | **30,000** | – |
| Trade and other receivables | 22 | **88,844** | 6,038 |
| Cash and bank balances | 23 | **167,752** | 346,803 |
| | | **308,368** | 352,841 |
| Assets of a discontinued operation and disposal group classified as held for sale | 12 | **–** | 97,117 |
| | | **308,368** | 449,958 |
| **Total assets** | | **3,550,543** | 4,120,526 |
| **Equity** | | | |
| Share capital | 24 | **531,078** | 265,539 |
| Reserves | 25(a) | **1,412,442** | 1,691,973 |
| Equity attributable to owners of the Company | | **1,943,520** | 1,957,512 |
| Non-controlling interests | | **(1,145)** | (473) |
| **Total equity** | | **1,942,375** | 1,957,039 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Convertible notes-liability portion, unsecured | 29 | **751,378** | 1,119,752 |
| Convertible notes-embedded derivatives, unsecured | 29 | **121** | 32,290 |
| Deferred taxation | 31(b) | **799,233** | 906,460 |
| | | **1,550,732** | 2,058,502 |
| **Current liabilities** | | | |
| Other borrowing, unsecured | 28 | **19,069** | 20,035 |
| Trade and other payables | 32 | **35,689** | 39,209 |
| Taxation payable | 31(a) | **2,678** | – |
| | | **57,436** | 59,244 |
| Liabilities of a discontinued operation and disposal group classified as held for sale | 12 | **–** | 45,741 |
| | | **57,436** | 104,985 |
| **Total liabilities** | | **1,608,168** | 2,163,487 |
| **Total equity and liabilities** | | **3,550,543** | 4,120,526 |
| **Net current assets** | | **250,932** | 344,973 |
| **Total assets less current liabilities** | | **3,493,107** | 4,015,541 |

Approved and authorised for issue by the board of directors on 28 March 2012

**Tong Nai Kan**
*Director*

**Tsang Ching Man**
*Director*

The notes on pages 43 to 119 form part of these financial statements

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **191** | 255 |
| Interests in subsidiaries | 17 | **2,254,004** | 2,254,004 |
| Interest in an associate, net | 18 | **–** | – |
| Available-for-sale financial assets | 19 | **1,000** | 2,641 |
| | | **2,255,195** | 2,256,900 |
| **Current assets** | | | |
| Amounts due from subsidiaries, net | 17 | **257,281** | 84,727 |
| Other receivables | 22 | **35,821** | 1,201 |
| Cash and bank balances | 23 | **45,151** | 337,044 |
| | | **338,253** | 422,972 |
| **Total assets** | | **2,593,448** | 2,679,872 |
| **Equity** | | | |
| Share capital | 24 | **531,078** | 265,539 |
| Reserves | 25(b) | **1,309,808** | 1,202,074 |
| **Total equity** | | **1,840,886** | 1,467,613 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Convertible notes- liabilities portion, unsecured | 29 | **751,378** | 1,119,752 |
| Convertible notes- embedded derivatives, unsecured | 29 | **121** | 32,290 |
| | | **751,499** | 1,152,042 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | 17 | **–** | 52,475 |
| Other payables | 32 | **1,063** | 7,742 |
| | | **1,063** | 60,217 |
| **Total liabilities** | | **752,562** | 1,212,259 |
| **Total equity and liabilities** | | **2,593,448** | 2,679,872 |
| **Net current assets** | | **337,190** | 362,755 |
| **Total assets less current liabilities** | | **2,592,385** | 2,619,655 |

Approved and authorised for issue by the board of directors on 28 March 2012

| **Tong Nai Kan** | **Tsang Ching Man** |
|---|---|
| *Director* | *Director* |

The notes on pages 43 to 119 form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital redemption reserve | Special capital reserve | Other capital reserve | Investment reserve | Exchange reserve | Statutory reserve | Accumulated losses | Total equity | Non-controlling interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *Note 25(c)(i)* | *Note 25(c)(i)* | *Note 25(c)(ii)* | *Note 25(c)(v)* | *Note 25(c)(iii)* | *Note 25(c)(iv)* | *Note 25(c)(vi)* | | | | |
| At 1 January 2010 | 66,163 | 876,044 | 5,318 | 492,172 | 1,805 | 949 | 47,549 | 6,170 | (321,528) | 1,174,642 | – | 1,174,642 |
| Profit for the year | – | – | – | – | – | – | – | – | 10,442 | 10,442 | (473) | 9,969 |
| Other comprehensive income | | | | | | | | | | | | |
| Exchange differences arising on translation | – | – | – | – | – | – | 98,945 | – | – | 98,945 | – | 98,945 |
| Total comprehensive income for the year | – | – | – | – | – | – | 98,945 | – | 10,442 | 109,387 | (473) | 108,914 |
| Issue of new shares: | | | | | | | | | | | | |
| – upon conversion of convertible notes *(note 24(c))* | 3,913 | 96,661 | – | – | – | – | – | – | – | 100,574 | – | 100,574 |
| – upon placing of shares *(note 24(d))* | 13,000 | 63,524 | – | – | – | – | – | – | – | 76,524 | – | 76,524 |
| – upon exercise of bonus warrants *(note 24(e))* | 8,716 | 29,945 | – | – | – | – | – | – | – | 38,661 | – | 38,661 |
| – upon rights issue *(note 24 (f))* | 173,747 | 283,977 | – | – | – | – | – | – | – | 457,724 | – | 457,724 |
| At 31 December 2010 and 1 January 2011 | 265,539 | 1,350,151 | 5,318 | 492,172 | 1,805 | 949 | 146,494 | 6,170 | (311,086) | 1,957,512 | (473) | 1,957,039 |
| Loss for the year | – | – | – | – | – | – | – | – | (393,397) | (393,397) | (672) | (394,069) |
| Other comprehensive income | | | | | | | | | | | | |
| Exchange difference: | | | | | | | | | | | | |
| – arising on translation | – | – | – | – | – | – | 95,397 | – | – | 95,397 | – | 95,397 |
| – reclassification adjustment for sale of disposal group *(note 12)* | – | – | – | – | – | – | (28,287) | – | – | (28,287) | – | (28,287) |
| Impairment loss in available-for-sale financial assets | – | – | – | – | – | (949) | – | – | – | (949) | – | (949) |
| Total comprehensive income for the year | – | – | – | – | – | (949) | 67,110 | – | (393,397) | (327,236) | (672) | (327,908) |
| Issue of new shares: | | | | | | | | | | | | |
| – upon open offer *(note 24(g))* | 265,539 | 47,705 | – | – | – | – | – | – | – | 313,244 | – | 313,244 |
| At 31 December 2011 | 531,078 | 1,397,856 | 5,318 | 492,172 | 1,805 | – | 213,604 | 6,170 | (704,483) | 1,943,520 | (1,145) | 1,942,375 |

The notes on pages 43 to 119 form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011<br>*HK$'000* | 2010<br>*HK$'000* |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before taxation | | | |
| – Continuing operations | | **(565,104)** | (21,673) |
| – Discontinued operation | | **34,419** | – |
| | | **(530,685)** | (21,673) |
| Adjustments: | | | |
| Interest income | | **(1,978)** | (132) |
| Finance costs | | **13,019** | 40,557 |
| Dividend income | | **(5)** | – |
| Fair value change of convertible notes' embedded derivatives | 29 | **(29,978)** | (179,550) |
| Gain on restructuring of promissory notes | 30 | **–** | (21,278) |
| Loss on redemption of promissory notes | 30 | **–** | 20,137 |
| Net loss on financial assets designated as fair value through profit or loss | | **2,280** | – |
| Depreciation | | **4,161** | 3,575 |
| Reversal of interest accrued | | **(532)** | (532) |
| Amortisation of production sharing contract | | **132,870** | 126,568 |
| Impairment loss of production sharing contract | | **424,306** | – |
| Impairment loss of available-for-sale financial assets | | **692** | – |
| Impairment loss of trade receivables | | **–** | 2,335 |
| Loss on disposal of property, plant and equipment | | **–** | 871 |
| Gain on redemption of convertible notes | | **(1,587)** | – |
| Gain on sale of disposal group held for sale | | **(34,419)** | – |
| Purchase of financial assets at fair value through profit or loss | | **(33,661)** | – |
| Proceeds from disposal of trading securities | | **9,609** | – |
| **Operating loss before working capital changes** | | **(45,908)** | (29,122) |
| Increase in loan receivable | | **(30,000)** | – |
| (Increase)/decrease in trade and other receivables | | **(82,806)** | 6,869 |
| (Decrease)/increase in trade and other payables | | **(2,988)** | 10,649 |
| **Cash used in operations** | | **(161,702)** | (11,604) |
| Interest received | | **1,978** | 132 |
| **Net cash used in operating activities** | | **(159,724)** | (11,472) |
| **Investing activities** | | | |
| Receipt of dividend income | | **5** | – |
| Purchase of property, plant and equipment | | **(4,922)** | (22,738) |
| Proceeds from disposal of property, plant and equipment | | **–** | 117 |
| Proceeds from sale of disposal group | 12 | **49,417** | – |
| Direct costs for sale of disposal group | 12 | **(1,892)** | – |
| **Net cash generate from/(used in) investing activities** | | **42,608** | (22,621) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from placing of shares | | **–** | 76,524 |
| Proceeds from issue of new shares under open offer, net of issuing costs | | **313,244** | – |
| Proceeds from exercise of bonus warrants | | **–** | 38,661 |
| Proceeds from rights issue, net of issuing costs | | **–** | 457,724 |
| Interest paid | | **(79)** | (43) |
| Repayment for other loans | | **(1,684)** | (1,365) |
| Payment for redemption of convertible notes | | **(381,918)** | – |
| Payment for redemption of promissory notes | | **–** | (227,583) |
| **Net cash (used in)/generated from financing activities** | | **(70,437)** | 343,918 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(187,553)** | 309,825 |
| Cash and cash equivalents at beginning of year | | **353,636** | 45,959 |
| Effect of foreign exchange rate changes | | **(1,481)** | (2,148) |
| Cash and cash equivalents at end of year represented by cash and bank balances | 23 | **164,602** | 353,636 |

The notes on pages 43 to 119 form part of these financial statements

## 1. GENERAL INFORMATION

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

The principal activities of the Group are coalbed methane gas exploration and exploitation in The Peoples Republic of China ("**PRC**"), sale of electronic components and treasury which included securities trading and money lending.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

| | |
|---|---|
| Amendments to HKFRSs | Improvement to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC)-Int 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) –Int 19 | Extinguish Financial Liabilities with Equity Instruments |

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

**HKAS 24 Related Party Disclosures (as revised in 2009)**

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in HKAS 24 (as revised 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. For example, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard while such entities were not treated as related parties of the Group under the previous Standards. These amendments have had no material impact to the Group's financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

**Improvements to HKFRSs issued in 2010**

Improvements to HKFRSs issued in 2010 omnibus standard introduce a number of amendments to the disclosure requirements in HKFRS 7 Financial Instruments: Disclosures. The disclosures about the Group's and the Company's financial instruments in note 4 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the following assets which are stated at fair value as explained in the accounting policies set out below:

– available-for-sale financial assets;

– financial assets at fair value through profit or loss; and

– embedded derivative in convertible notes

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

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of uncertainty are discussed in note 5.

**(c) Subsidiaries and non-controlling interests**

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

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

**(c) Subsidiaries and non-controlling interests *(Continued)***

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial assets or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

**(d) Associates**

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of net assets of the associate and any impairment loss relating to the investment (see note 3(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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

**(d) Associates *(Continued)***

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 3(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

**(e) Business combination**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

– a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that existed at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Tax*;

– assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

– liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

**(e) Business combination *(Continued)***

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date-amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: *Recognition and Measurement*, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (e) Business combination *(Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

#### (f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a cash-generating unit during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

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

**(g) Other investments in equity securities**

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

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies as set out in notes 3(z) (v) and (iii).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 3(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with policy set out in note 3(z)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 3(z)(iii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

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

**(h) Accounting for production share contract**

Production sharing contract constitutes a jointly controlled operation. The Group's interest in production sharing contract is accounted for in the consolidated financial statements on the following bases:

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

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

*Jointly controlled assets*

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

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

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

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 3 (l)).

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

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | 2 years |
| Furniture and fixtures | 5 to 10 years |
| Motor vehicles | 5 to 10 years |
| Plant and equipment | 3 to 10 years |

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

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

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

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economics benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Construction in progress represents buildings and structures under construction, which is stated at cost less impairment losses (see note 3(l)). Cost comprises the direct costs of construction as well as borrowing costs (see note 3(u)) during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

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

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3 (l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful life is charged to profit or loss on a straight-line basis over the asset's remaining contract terms. Production sharing contract is amortised on straight-line basis over the remaining contract terms of 27.9 years (2010: 28.9 years) of the production sharing contract.

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

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

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

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

**(k) Leased assets**

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

*(i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee

*(ii) Operating lease charges*

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

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

**(k) Leased assets *(Continued)***

*(ii) Operating lease charges (Continued)*

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

**(l) Impairment of assets**

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

**(l) Impairment of assets *(Continued)***

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

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

– For investments in subsidiaries and associates (including those recognised using the equity method (see note 3(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 3 (l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(l)(ii).

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

– For trade receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

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

**(l) Impairment of assets *(Continued)***

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

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

*(ii) Impairment of other assets*

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

– property, plant and equipment; and
– intangible assets;

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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

**(l) Impairment of assets *(Continued)***

*(ii) Impairment of other assets (Continued)*

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

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

**(l) Impairment of assets *(Continued)***

*(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see note 3(l)(i) and (ii)).

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

**(m) Inventories**

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

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

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

**(n) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3 (l)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for bad and doubtful debts.

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

**(o) Interest-bearing borrowings**

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

**(p) Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

**(q) Convertible notes**

*(i) Convertible notes that contains an equity component*

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

At initial recognition, the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

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

**(q) Convertible notes *(Continued)***

*(ii) Other convertible notes*

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 3 (p)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3 (p). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

**(r) Promissory notes**

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

**(s) Trade and other payables**

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

**(t) Cash and cash equivalents**

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

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

**(u) Borrowing costs**

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

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

**(v) Employee benefits**

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

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

*(ii) Share-based payments*

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

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

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

**(v) Employee benefits** *(Continued)*

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(w) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

(w) **Income tax *(Continued)***

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

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

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

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

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

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

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

    – the same taxable entity; or

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

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

**(x) Provisions and contingent liabilities**

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

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

**(y) Translation of foreign currencies**

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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

**(z) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

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

(ii) Revenue from sale of electronic components is recognised when goods are delivered and title has passed.

(iii) Interest income is recognised as it accrues using the effective interest method.

(iv) Revenue from trading of securities is recognised on the trade date basis.

(v) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

**(aa) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

**(aa) Related parties *(Continued)***

(b) *(Continued)*

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

*(i) Non-current assets held for sale*

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 3.

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

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

*(ii) Discontinued operations*

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

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

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

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

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

**(cc) Segment reporting**

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

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

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include bank and cash and cash equivalents, convertible notes, trade and other receivables and trade and other payables. The Group's activities expose it to a variety of finance risks, including currency risk, equity price risk, credit risk, liquidity risk, interest rate risk and oil and gas price risk. These risks are limited by the Group's financial management policies and practices described below:

### (a) Currency risk

The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in local currencies. RMB is not freely convertible into other currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates. The Group does not use any derivative financial instruments to hedge its exposure to foreign exchange risk.

*Sensitivity analysis*

As at 31 December 2011, if RMB had strengthened/weakened by 3% with all other variable held constant, the post-tax loss for the year would have been approximately HK$977,000 (2010: HK$839,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of cash and bank balances denominated in RMB.

### (b) Equity price risk

The Group is exposed to equity price risk from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period, the Group is exposed to this risk through the redemption rights attached to the convertible notes issued by the Company as disclosed in note 29. Other price risk is the risk that the fair values of securities decrease as a result of changes in levels of equity indices and the values of individual securities. The Group is exposed to equity securities price risk arising from individual equity investment classified as financial assets at fair value through profit and loss (note (20)) as at 31 December 2011. The Group has not hedged its price risk arising from investments in equity securities financial assets. The Group's listed investments are listed on the Stock Exchange are valued at the quoted market prices at the reporting date.

*Sensitivity analysis*

As at 31 December 2011, if the market prices of the securities had increased/decreased by 10% with all other variables held constant, the carrying amounts of the Group's publicly traded financial assets at fair value through profit and loss would be approximately HK$130,000 higher or HK$32,000 lower than the current value.

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has a delegated team to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong, which accounted for 100% (2010: 100%) of the total trade receivables as at 31 December 2011. The Group has no significant concentration of credit risk by any single debtor, except for the loans and trade and other receivables as disclosed in notes 21 and 22.

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk for such institutions is minimal.

### (d) Liquidity risk

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

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

## 4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

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

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

**The Group**

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | 2 years but less than 5 years | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | 2 years but less than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Other borrowings | 19,069 | 19,069 | 19,069 | - | - | 20,035 | 20,035 | 20,035 | – | – |
| Trade and other payables | 35,689 | 35,689 | 35,689 | - | - | 39,209 | 39,209 | 39,209 | – | – |
| Convertible notes (including embedded derivatives) | 751,499 | 770,000 | - | 770,000 | - | 1,152,042 | 1,162,417 | – | – | 1,162,417 |
| | 806,257 | 824,758 | 54,758 | 770,000 | - | 1,211,286 | 1,221,661 | 59,244 | – | 1,162,417 |

**The Company**

| | 2011 | | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | 2 years but less than 5 years | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | 2 years but less than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Other payables | 1,063 | 1,063 | 1,063 | - | - | 7,742 | 7,742 | 7,742 | – | – |
| Convertible notes (including embedded derivatives) | 751,499 | 770,000 | - | 770,000 | - | 1,152,042 | 1,162,417 | – | – | 1,162,417 |
| Amounts due to subsidiaries | - | - | - | - | - | 52,475 | 52,475 | 52,475 | – | – |
| | 752,562 | 771,063 | 1,063 | 770,000 | - | 1,212,259 | 1,222,634 | 60,217 | – | 1,162,417 |

**4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)***

**(e) Interest rate risk**

Except for bank deposits (note (23)), the Group has no significant interest-bearing assets and liabilities.

Other than as mentioned above, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2011, if the interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, the Group's loss for the year would decrease/increase by approximately HK$1,678,000 (2010: HK$3,468,000).

**(f) Oil and gas price risk**

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

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

**(g) Fair values**

*(i) Financial instruments carried at fair value*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

– Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

– Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

– Level 3: fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)***

**(g) Fair values *(Continued)***

*(ii) Financial instruments carried at fair value*

The following table presents the Group's and the Company's assets and liabilities that are measured at fair value as at 31 December 2011 and 2010:

| **The Group** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| **2011** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Assets** | | | |
| Financial assets designated at fair value through profit or loss | | | |
| – Unlisted convertible notes | **–** | **10,294** | **–** |
| – Trading securities | **11,478** | **–** | **–** |
| – Available-for-sale financial assets | **–** | **–** | **1,000** |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | **–** | **–** | **121** |
| 2010 | | | |
| **Assets** | | | |
| – Available-for-sale financial assets | – | – | 2,641 |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | – | – | 32,290 |

| **The Company** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| **2011** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | **–** | **–** | **121** |
| 2010 | | | |
| **Liabilities** | | | |
| – Conversion option embedded in convertible notes | – | – | 32,290 |

During the years ended 31 December 2011 and 2010, there were no significant transfers between instruments in Level 1, Level 2 and Level 3.

**4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)***

**(g) Fair values *(Continued)***

*(ii) Financial instruments carried at fair value (Continued)*

The movement during the period in the balance of Level 3 fair value measurements is as follows:

| | The Group and the Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Embedded derivatives option in convertible notes | | |
| At 1 January | **32,290** | 226,525 |
| Change in fair value recognised in profit or loss | **(29,978)** | (179,550) |
| Redemption | **(2,191)** | – |
| Conversion into new shares | **–** | (14,685) |
| At 31 December | **121** | 32,290 |

*(iii) Financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 and 2010.

**(h) Estimation of fair values**

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

*(i) Securities*

Fair value for quoted equity investments are based on quoted market bid prices at the end of the reporting period.

*(ii) Derivatives*

The estimates of the fair value of the conversion option embedded in the convertible notes are determined based on valuation models at the end of the reporting period. Details of the assumptions adopted are disclosed in note 29.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Key sources of estimation uncertainty

*(a) Impairment of property, plant and equipment*

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

*(b) Escrow monies held in escrow accounts*

As disclosed in notes 22(a) to the financial statements, there were escrow monies of HK$85,000,000 placed in the escrow accounts of an escrow agent. The Group has instituted legal proceedings against the escrow agent for the return of these escrow monies. As referred to in note 34(a) to the financial statements, based on the legal opinion sought, the directors of the Company are of the view that there is no impairment loss to be recognised on the other receivables (note 22(a)) as at 31 December 2011. However, in the event that the outcome of litigations were unfavourable and the actual future cash inflows were less than expected, an impairment loss may arise in future period.

*(c) Impairment of trade and other receivables*

As explained in note 3 (l)(i), the Group makes impairment loss on trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than estimated at the end of the reporting period.

*(d) Useful lives and amortisation of intangible asset*

Production sharing contract is amortised on a straight-line basis over the periods of 30 years from contract date to 31 March 2038. The management determines the estimated useful lives and basis for amortisation for its production sharing contract takes into account factors including but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service of the assets. The estimation of the useful life and basis for amortisation is a matter of judgment based on the experience of the Group. Management reviews the useful lives and basis for amortisation of intangible asset annually, and if expectations are significantly different from previous estimates of useful economics lives and therefore, the amortisation rate for future periods will be adjusted accordingly.

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

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

**Key sources of estimation uncertainty *(Continued)***

*(e) Estimate for reserves of coalbed methane under the Production Sharing Contract*

Reserves are estimates of the amount of coalbed methane that can be economically and legally extracted from the designated contract area under the Production Sharing Contract (note (16)). In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transports costs, commodity demand and commodity prices.

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

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

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

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

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

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

*(f) Impairment of intangible asset – Production Sharing Contract*

The estimated recoverable amount of the Production Sharing Contract (note (16)) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by an independent firm of professional qualified valuers and technical assessment reports issued by Netherland, Sewell & Associates, Inc. Both the valuer and technical advisor are not connected with the Group and with appropriate qualifications and relevant experiences in the industry. The estimated recoverable amount of the intangible asset as at the end of the reporting period was arrived at using the excess earnings method under income approach valuation methodology.

Had different valuation methodology and parameters and discount rate been used to determine the estimated recoverable amount of the intangible asset, the Group's results of operations and financial position could be materially different.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

**Key sources of estimation uncertainty *(Continued)***

*(g) Deferred tax assets*

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be ultilised. However, there is no assurance that the Group will generate sufficient taxable income to all or part of its deferred tax assets to be ultilised.

**Critical accounting judgement in applying the Group's accounting policies**

*(h) Fair value of embedded derivatives portion of convertible notes*

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on the independent professional valuations using the binominal option model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2011 was HK$121,000 (2010: HK$32,290,000). Further details are disclosed in note 29 to the financial statements.

*(i) Fair value of available-for-sale investment*

The Group reviews available-for-sale investment at the end of each reporting period to determine whether there is objective evidence of impairment. Judgement is required to determine whether a decline in the fair value of an investment is significant or prolonged. In making this judgement, the Group considers a number of factors including the historical data on market volatility, the price of the specific investment, industry and sector performance, and financial information regarding the issuers of the investment.

*(j) Functional currency*

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

## 6. TURNOVER AND SEGMENT REPORTING

### (a) Turnover

Turnover represents the sales value of goods and services supplied to customers and income from trading of securities. The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Turnover:** | | |
| Sales of electronic components | **25,796** | 43,065 |
| Sales of coalbed methane products | **2,847** | 2,458 |
| Proceeds from trading of securities | **9,609** | 2,544 |
| Interest income from money lending | **10,012** | – |
| | **48,264** | 48,067 |

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue:** | | |
| Sales of electronic components | **25,796** | 43,065 |
| Sales of coalbed methane products | **2,847** | 2,458 |
| (Loss)/profit on trading of securities | **(2,851)** | 640 |
| Net gain on financial assets designated as fair value through profit or loss | **571** | – |
| Interest income from money lending | **10,012** | – |
| | **36,375** | 46,163 |

**6. TURNOVER AND SEGMENT REPORTING *(Continued)***

**(b) Segment information**

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Company's board of directors, Chief Operating Decision Maker ("**CODM**") for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Continuing operations:

– Electronic components

– Coalbed methane

– Treasury (i.e. securities trading and money lending)

Discontinued operation:

– Natural gas

*(i) Segment results, assets and liabilities*

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments. Deferred taxation 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.

The measure used for reporting segment profit is "segment operating results". Segment operating results includes the operating profit generated by the segment and finance costs directly attributable to the segment, without allocation of central administration costs (i.e. directors' remuneration). Taxation charge is not allocated to reportable segment.

**6. TURNOVER AND SEGMENT REPORTING *(Continued)***

**(b) Segment information *(Continued)***

*(i) Segment results, assets and liabilities (Continued)*

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below:

**Year ended 31 December 2011**

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Electronic components | Coalbed methane | Treasury | Total | Natural gas | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Reportable segment revenue from external customers | 25,796 | 2,847 | 7,732 | 36,375 | – | 36,375 |
| Inter-segment revenue | – | – | – | – | – | – |
| **Reportable segment revenue** | 25,796 | 2,847 | 7,732 | 36,375 | – | 36,375 |
| **Reportable segment results** | (2,028) | (549,910) | 6,519 | (545,419) | – | (545,419) |
| Amortisation for the year | – | 132,870 | – | 132,870 | – | 132,870 |
| Depreciation for the year | 10 | 2,851 | 38 | 2,899 | – | 2,899 |
| Impairment loss on production sharing contract | – | 424,306 | – | 424,306 | – | 424,306 |
| Gain from sale of disposal group held for sale | – | – | – | – | 34,419 | 34,419 |
| Gain on redemption of convertible notes | – | (1,587) | – | (1,587) | – | (1,587) |
| Other income | (52) | (531) | (970) | (1,553) | – | (1,553) |
| Interest expenses | 79 | 12,940 | – | 13,019 | – | 13,019 |
| Major non-cash item: | | | | | | |
| Fair value change of convertible notes' embedded derivatives | – | (29,978) | – | (29,978) | – | (29,978) |
| **Reportable segment assets** | 4,616 | 3,335,246 | 162,296 | 3,502,158 | – | 3,502,158 |
| Additions to non-current segment assets during the year | – | 4,661 | 150 | 4,811 | – | 4,811 |
| **Reportable segment liabilities** | 16,658 | 781,612 | 3,964 | 802,234 | – | 802,234 |

## 6. TURNOVER AND SEGMENT REPORTING *(Continued)*

### (b) Segment information *(Continued)*

*(i) Segment results, assets and liabilities (Continued)*

Year ended 31 December 2010

| | Continuing operations | | | | Discontinued operation | |
|---|---|---|---|---|---|---|
| | Electronic components *HK$'000* | Coalbed methane *HK$'000* | Treasury *HK$'000* | Total *HK$'000* | Natural gas *HK$'000* | Total *HK$'000* |
| Reportable segment revenue from external customers | 43,065 | 2,458 | 640 | 46,163 | – | 46,163 |
| Inter-segment revenue | – | – | – | – | – | – |
| **Reportable segment revenue** | 43,065 | 2,458 | 640 | 46,163 | – | 46,163 |
| **Reportable segment results** | (1,139) | 2,440 | 597 | 1,898 | – | 1,898 |
| Amortisation for the year | – | 126,568 | – | 126,568 | – | 126,568 |
| Depreciation for the year | 11 | 2,652 | – | 2,663 | – | 2,663 |
| Loss on redemption of promissory notes | – | 20,137 | – | 20,137 | – | 20,137 |
| Gain on restructuring of promissory notes | – | (21,278) | – | (21,278) | – | (21,278) |
| Other income | – | (532) | – | (532) | – | (532) |
| Interest expenses | – | 40,514 | | 40,514 | – | 40,514 |
| Major non-cash item: | | | | | | |
| – Fair value change of convertible notes' embedded derivatives | – | (179,550) | – | (179,550) | – | (179,550) |
| **Reportable segment assets** | 6,833 | 3,761,782 | 102,566 | 3,871,181 | 97,117 | 3,968,298 |
| Additions to non-current segment assets during the year | – | 19,858 | – | 19,858 | – | 19,858 |
| **Reportable segment liabilities** | 16,847 | 1,186,737 | – | 1,203,584 | 45,741 | 1,249,325 |

**6. TURNOVER AND SEGMENT REPORTING *(Continued)***

**(b) Segment information *(Continued)***

*(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities*

| | 2011 | 2010 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue** | | |
| **Continuing operations:** | | |
| Reportable segment revenue | **36,375** | 46,163 |
| Elimination of inter-segment revenue | **–** | – |
| Consolidated turnover from continuing operations | **36,375** | 46,163 |
| **Profit or loss** | | |
| **Continuing operations:** | | |
| Reportable segment (loss)/profit | **(545,419)** | 1,898 |
| Other income | **3,822** | 222 |
| Interest expense | **–** | (43) |
| Unallocated head office and corporate expenses | **(23,507)** | (23,750) |
| Consolidated loss from continuing operations before tax | **(565,104)** | (21,673) |
| **Discontinued operation:** | | |
| Reportable segment profit | **34,419** | – |
| **Assets** | | |
| Reportable segment assets | **3,502,158** | 3,968,298 |
| Unallocated head office and corporate assets | **48,385** | 152,228 |
| Consolidated total assets | **3,550,543** | 4,120,526 |
| **Liabilities** | | |
| Reportable segment liabilities | **802,234** | 1,249,325 |
| Deferred taxation | **799,233** | 906,460 |
| Unallocated head office and corporate liabilities | **6,701** | 7,702 |
| Consolidated total liabilities | **1,608,168** | 2,163,487 |

## 6. TURNOVER AND SEGMENT REPORTING *(Continued)*

### (b) Segment information *(Continued)*

*(iii) Geographical information*

| | Continuing operations | | Discontinued operation | |
|---|---|---|---|---|
| | **Hong Kong** | **PRC** | **PRC** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **2011** | | | | |
| Revenue | **33,528** | **2,847** | **–** | **36,375** |
| Non-current assets | **1,226** | **3,239,949** | **–** | **3,241,175** |
| Available-for-sale financial assets | **1,000** | **–** | **–** | **1,000** |
| 2010 | | | | |
| Revenue | 43,705 | 2,458 | – | 46,163 |
| Non-current assets | 2,048 | 3,665,879 | – | 3,667,927 |
| Available-for-sale financial assets | 2,641 | – | – | 2,641 |

*(iv) Information about major customers*

Revenue from customers contributing 10% or more of the total sales of the Group is as follow:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A-Electronic components | **15,047** | 15,732 |
| Customer B-Electronic components | **–** | 10,801 |
| Customer C- Treasury | **4,900** | – |
| | **19,947** | 26,533 |

## 7. OTHER REVENUE AND OTHER INCOME

| | Continuing operations | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **1,978** | 132 |
| Dividend income | **5** | – |
| Tooling income for unclaimed moulding fee | **27** | 55 |
| Exchange gain, net | **2,817** | 26 |
| Reversal of interest accrued (note) | **532** | 532 |
| Sundry income | **16** | 9 |
| | **5,375** | 754 |

Note:

As disclosed in notes 16 and 28, the independent third party agreed to waive all accrued interest of approximately HK$6,834,000 (RMB6,008,000) due by Can-Elite and China United as at 31 December 2008, of which Can-Elite shares approximately HK$4,784,000 (RMB4,206,000) based on the PSC. The accrued interest waived is amortised over the remaining contractual period of 9 years during which a discount on sale of CBM products will be given to that third party.

## 8. LOSS BEFORE TAXATION

| | Continuing operations | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit for the year from continuing operations is attributable to: | | |
| Owners of the Company | **(427,816)** | 10,442 |
| Non-controlling interests | **(672)** | (473) |
| | **(428,488)** | 9,969 |

Loss before taxation from continuing operations is arrived at after charging:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (a) Finance costs | | |
| Interest expenses on following borrowings wholly repayable within five years | | |
| Imputed interest on promissory notes | **–** | 25,863 |
| Imputed interest on convertible notes | **12,940** | 14,651 |
| Interest on bank overdrafts | **79** | 43 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **13,019** | 40,557 |
| (b) Staff costs (including directors' emoluments) | | |
| Salaries, wages and other benefits | **21,078** | 20,734 |
| Contributions to defined contribution retirement plans | **316** | 329 |
| Total staff costs | **21,394** | 21,063 |
| (c) Other items | | |
| Amortisation of production sharing contract | **132,870** | 126,568 |
| Impairment loss on production sharing contract | **424,306** | – |
| Depreciation of property, plant and equipment | **4,161** | 3,575 |
| Operating lease charges in respect of land and buildings | **2,294** | 3,417 |
| Auditor's remuneration | | |
| – Audit services | **650** | 650 |
| – Non-audit services | **220** | 220 |
| Loss on disposal of property, plant and equipment | **–** | 871 |
| Impairment loss on trade and other receivables | **–** | 2,335 |
| Cost of inventories sold | **23,264** | 38,560 |

## 9. DIRECTORS' REMUNERATION

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

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Directors' fees<br>*HK$'000* | Salaries, allowances and benefits in kind<br>*HK$'000* | Discretionary bonuses<br>*HK$'000* | Retirement scheme contributions<br>*HK$'000* | Total<br>*HK$'000* |
| **Executive directors** | | | | | |
| Tong Nai Kan | 150 | 2,400 | – | 12 | 2,562 |
| Tsang Ching Man | – | 720 | 140 | 12 | 872 |
| Tam Tak Wah | – | 540 | 89 | 12 | 641 |
| Lo Tai In | – | 240 | 22 | 12 | 274 |
| Pang Yuen Shan, Christina (resigned on 15 June 2011) | – | – | 45 | – | 45 |
| Cheng Wai Keung | – | 240 | 27 | 12 | 279 |
| **Independent non-executive directors** | | | | | |
| Chan Tsz Kit | 100 | – | – | – | 100 |
| Wang Li | 100 | – | – | – | 100 |
| Wong Kwok Hong, Simon (resigned on 28 July 2011) | 57 | – | – | – | 57 |
| Chan Yim Bor, Bonnie (appointed on 28 July 2011) | 43 | – | – | – | 43 |
| | 450 | 4,140 | 323 | 60 | 4,973 |

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

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Directors' fees<br>*HK$'000* | Salaries, allowances and benefits in kind<br>*HK$'000* | Discretionary bonuses<br>*HK$'000* | Retirement scheme contributions<br>*HK$'000* | Total<br>*HK$'000* |
| **Executive directors** | | | | | |
| Tong Nai Kan | 150 | 2,400 | – | 12 | 2,562 |
| Tsang Ching Man | – | 720 | 120 | 12 | 852 |
| Tam Tak Wah | – | 540 | 90 | 12 | 642 |
| Lo Tai In | – | 240 | 20 | 12 | 272 |
| Pang Yuen Shan, Christina | – | – | 125 | – | 125 |
| Cheng Wai Keung (appointed on 22 November 2010) | – | 26 | 3 | 1 | 30 |
| **Independent non-executive directors** | | | | | |
| Chan Tsz Kit | 100 | – | – | – | 100 |
| Wang Li | 100 | – | – | – | 100 |
| Wong Kwok Hong, Simon | 100 | – | – | – | 100 |
| | 450 | 3,926 | 358 | 49 | 4,783 |

There was no amount paid during the years ended 31 December 2011 and 2010 to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2010.

## 10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Out of the emoluments of the five individuals with the highest emoluments, two (2010: two) are directors, whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **4,165** | 4,137 |
| Contributions to retirement benefits schemes | **24** | 36 |
| | **4,189** | 4,173 |

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

| | **Number of individuals** | |
|---|---|---|
| **Emoluments bands** | **2011** | 2010 |
| Nil to HK$1,000,000 | **1** | – |
| HK$1,000,001 to HK$1,500,000 | **1** | 2 |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| | **3** | 3 |

There was no amount paid or payable during the years ended 2011 and 2010 to any of these individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2011 and 2010.

## 11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | Continuing operations | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Current taxation | | |
| PRC Corporate Income Tax | | |
| – Provision for the year | **680** | – |
| – Under provision in respect of prior years | **1,944** | – |
| Hong Kong Profits Tax | **54** | – |
| Deferred taxation *(note 31(b))* | **(139,294)** | (31,642) |
| Tax credit | **(136,616)** | (31,642) |

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2010:16.5%) of the estimated assessable profits for the year.

(ii) The Company's wholly-owned subsidiary, Can-Elite, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 30% (2010: 30%).

Pursuant to the tax treaty agreement between the Government of the PRC and the Government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deducted from any Canadian tax payable in respect of such profits, income or gains. No provision for Canadian tax has been made as the Group has no assessable profits derived from Canada during the years ended 31 December 2011 and 2010.

(iii) The subsidiaries in the PRC are subject to PRC corporate income tax rate of 25% (2010: 25%).

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

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

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

| | **2011** *HK$'000* | 2010 *HK$'000* |
|---|---|---|
| Loss before taxation (including profit from discontinued operation) | **(530,685)** | (21,673) |
| Notional tax on loss before taxation, calculated at the rates applicable in the countries concerned | **(129,366)** | (14,334) |
| Tax effect of non-taxation income | **(14,600)** | (30,719) |
| Tax effect of non-deductible expenses | **5,087** | 13,220 |
| Tax effect of tax losses not recognised | **331** | 191 |
| Special tax deduction | **(12)** | – |
| Under-provision in prior years | **1,944** | – |
| Tax credit | **(136,616)** | (31,642) |

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

On 24 March 2011, the Company completed the disposal of the entire equity interest in Sanxia Gas (BVI) Investment Limited ("**Sanxia Gas**") and its subsidiaries, namely Hong Kong Sanxia Gas Investment Limited, 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 "**Sanxia Gas Group**") at a cash consideration of RMB50 million (equivalent to approximately HK$59,400,000) to a former director of the Company, Mr Tan Chuanrong. The operations of gas supply of Sanxia Gas Group were discontinued since 2 December 2009.

Gain on disposal was as follows:

| | **2011** *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)** |
| Assets less liabilities of disposal group held for sale | **51,376** |
| Direct costs relating to the disposal | **1,892** |
| Exchange reserve realised *(note (25)(a))* | **(28,287)** |
| Gain on sale of disposal group | **34,419** |
| Cash consideration | **59,400** |
| Net cash inflow arising on disposal: | |
| Cash consideration | **59,400** |
| Bank balances and cash disposed of | **(9,983)** |
| | **49,417** |

Apart from the above, the Sanxia Gas Group did not contribute any cash flows and results to the Group for the year ended 31 December 2011.

## 13. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss for the year attributable to the owners of the Company includes a profit of HK$58,371,000 (2010: a profit of HK$116,633,000) which has been dealt with in the financial statements of the Company.

## 14. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on (loss)/profit attributable to owners of the Company from continuing operations and discontinued operation of HK$393,397,000 (2010: profit of HK$10,442,000) and the weighted average of 3,937,614,929 ordinary shares (2010: 1,723,490,244 (as restated)) in issue after adjusting the effect of the share consolidation during the year as referred to note 24 (b) below, calculated as follows:

(Loss)/profit attributable to owners of the Company

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit attribution to owners: | | |
| – Continuing operations | **(427,816)** | 10,442 |
| – Discontinued operation | **34,419** | – |
| | **(393,397)** | 10,442 |

Weighted average number of ordinary shares (basic and diluted)

| | **2011** | 2010 |
|---|---|---|
| | | (Restated) |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | | |
| Issued ordinary shares at 1 January | **3,319,236,603** | 1,207,422,019 |
| Effect of conversion of convertible notes | **–** | 52,041,561 |
| Effect of exercise of bonus warrants | **–** | 56,727,290 |
| Effect of rights issue | **–** | 178,507,803 |
| Effect of placing of shares | **–** | 228,791,571 |
| Effect of open offer | **618,378,326** | – |
| Weighted average number of ordinary shares at 31 December | **3,937,614,929** | 1,723,490,244 |

**14. (LOSS)/EARNINGS PER SHARE *(Continued)***

**(b) Diluted (loss)/earnings per share**

For the years ended 31 December 2011 and 2010, the computation of diluted loss per share does not include the effects of outstanding of convertible notes because the exercise price of convertible notes was higher than the weighted average market price of the share of the Company and there was no assumption for the exercise of convertible notes.

## 15. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Land and buildings | Construction in progress | Plant and equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | | | | | |
| At 1 January 2010 | – | 1,643 | 24,685 | 2,199 | 532 | 311 | 29,370 |
| Exchange adjustment | 162 | 380 | 958 | – | 19 | – | 1,519 |
| Additions | 6,196 | 12,126 | 1,100 | 396 | 1,734 | 1,186 | 22,738 |
| Disposals | – | – | – | (802) | (731) | – | (1,533) |
| At 31 December 2010 and 1 January 2011 | 6,358 | 14,149 | 26,743 | 1,793 | 1,554 | 1,497 | 52,094 |
| Exchange adjustment | 228 | 507 | 918 | 24 | 22 | – | 1,699 |
| Additions | – | 4,662 | – | 110 | 150 | – | 4,922 |
| At 31 December 2011 | 6,586 | 19,318 | 27,661 | 1,927 | 1,726 | 1,497 | 58,715 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2010 | – | – | 4,320 | 1,843 | 266 | 311 | 6,740 |
| Exchange adjustment | 1 | – | 236 | – | 1 | – | 238 |
| Charge for the year | 52 | – | 2,753 | 12 | 214 | 544 | 3,575 |
| Written back on disposal | – | – | – | (292) | (253) | – | (545) |
| At 31 December 2010 and 1 January 2011 | 53 | – | 7,309 | 1,563 | 228 | 855 | 10,008 |
| Exchange adjustment | 6 | – | 285 | 10 | 3 | – | 304 |
| Charge for the year | 325 | – | 2,632 | 333 | 278 | 593 | 4,161 |
| At 31 December 2011 | 384 | – | 10,226 | 1,906 | 509 | 1,448 | 14,473 |
| **Carrying amount** | | | | | | | |
| At 31 December 2011 | 6,202 | 19,318 | 17,435 | 21 | 1,217 | 49 | 44,242 |
| At 31 December 2010 | 6,305 | 14,149 | 19,434 | 230 | 1,326 | 642 | 42,086 |

The land and buildings are situated in the PRC under medium-term lease. None of property, plant and equipment was pledged as security for borrowings of the Group as at 31 December 2011 and 2010.

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

**The Company**

| | Furniture and fixtures | Motor Vehicles | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | |
| At 1 January 2010 | 802 | 731 | 1,533 |
| Additions | – | 318 | 318 |
| Disposal | (802) | (731) | (1,533) |
| At 31 December 2010 and 31 December 2011 | – | 318 | 318 |
| **Accumulated depreciation** | | | |
| At 1 January 2010 | 292 | 253 | 545 |
| Charge for the year | – | 63 | 63 |
| Written back on disposal | (292) | (253) | (545) |
| At 31 December 2010 and 1 January 2011 | – | 63 | 63 |
| Charge for the year | – | 64 | 64 |
| At 31 December 2011 | – | 127 | 127 |
| **Carrying amount** | | | |
| At 31 December 2011 | – | 191 | 191 |
| At 31 December 2010 | – | 255 | 255 |

## 16. INTANGIBLE ASSETS

**The Group**

| | **Production sharing contract ("PSC")** *HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2010 | 3,753,839 |
| Exchange adjustment | 142,587 |
| At 31st December 2010 and 1 January 2011 | 3,896,426 |
| Exchange adjustment | 139,630 |
| At 31 December 2011 | 4,036,056 |
| **Accumulated amortisation** | |
| At 1 January 2010 | 135,555 |
| Charge for the year | 126,568 |
| Exchange adjustment | 8,462 |
| At 31 December 2010 and 1 January 2011 | 270,585 |
| Charge for the year | 132,870 |
| Impairment loss | 424,306 |
| Exchange adjustment | 11,362 |
| At 31 December 2011 | 839,123 |
| **Carrying amount** | |
| At 31 December 2011 | 3,196,933 |
| At 31 December 2010 | 3,625,841 |

## 16. INTANGIBLE ASSETS *(Continued)*

*Notes:*

(a) Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008, 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 of the Company, and China United Coalbed Methane Corporation Limited ("**China United**") on 8 November 2007 ("**PSC**"). The interests of China United and Can-Elite under the PSC are in the proportion of 30% and 70% respectively, or in proportion to their participating interests in the development costs.

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

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

China United was established in 1996 and its principal business includes the exploitation, exploration, development, production and delivery and transportation of coalbed methane in the PRC and provision of ancillary services in relation thereto. The State Council of the PRC had in 1996 granted an exclusive right to China United to explore, develop and produce coalbed methane in cooperation with overseas companies. China United has obtained the approval from State Council of the PRC to have the option to cooperate with a foreign enterprise to exploit the coalbed methane resources in the contract area in a block covering approximately 567.843 square kilometres in the Su'nan Area of 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 commencing from 1 April 2008, 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 CBM Contract Area.

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

Besides, Can-Elite has signed an agreement with China United in October of 2011, pursuant to which both parties agreed China United to commence drilling work in the Contract Area and to explore new technology for exploring and developing CBM, aiming at speeding up the exploration process of the Contract Area. In December 2011, China United has drilled a parametric well within the Contract Area, the drilling has finished to date.

## 16. INTANGIBLE ASSETS *(Continued)*

*Notes: (Continued)*

(a) *(Continued)*

Can-Elite and China United shall reimburse 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 China United, 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 27.9 years (2010: 28.9 years) of the PSC.

Set out below is the summary of assets, liabilities and results of the CBM business under the PSC included in the consolidated financial statements for the year:

| | | **2011** | 2010 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| (i) | Results for the year | | |
| | Revenue | **2,847** | 2,458 |
| | Expenses | **(14,738)** | (14,146) |
| | Amortisation charge of PSC | **(132,870)** | (126,568) |
| | Impairment loss on PSC | **(424,306)** | – |
| | PRC Corporate Income Tax | **(2,624)** | – |
| | Deferred tax liabilities | **139,294** | 31,642 |
| (ii) | Other comprehensive income | | |
| | Exchange difference on translation of foreign operations | **95,265** | 98,872 |
| (iii) | Assets and liabilities | | |
| | Intangible assets-PSC | **3,196,933** | 3,625,841 |
| | CBM related plant and machinery | **35,905** | 32,724 |
| | Current liabilities | **(30,113)** | (30,443) |
| | Deferred tax liabilities *(note (31)(b))* | **(799,233)** | (906,460) |

## 16. INTANGIBLE ASSETS *(Continued)*

*Notes: (Continued)*

(a) *(Continued)*

| | | 2011<br>*HK$'000* | 2010<br>*HK$'000* |
|---|---|---|---|
| (iv) | Capital commitments *(note (33)(a))* | | |
| | Authorised but not contracted for | **413** | 12,467 |
| | Contracted but not provided for | **31,610** | 22,462 |

(b) Impairment test on PSC

The recoverable amount of PSC has been determined based on a value in use calculations. The valuation was carried out by Cushman & Wakefield Valuation Advisory Services (HK) Ltd, an independent firm of professional valuers not connected with the Group. For the purpose of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit.

For impairment assessment purposes cash flow projections are prepared under the following assumptions:

| | |
|---|---|
| Period of cash flow projections | 12 years |
| Discount rate (pre-tax) | 19.50% |

The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the 12-year period, and pre-tax discount rate of 19.50% (2010: 21.35%), which is pre-tax and reflect specific risk, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, exploitation method is appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's expectation for the market development in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2011 is based technical reports issued by Netherland, Sewell & Associates, Inc. on 2 March 2011 and 31 October 2008. Due to delay in the implementation of the business plan for the exploration and exploitation of the CBM, the carrying amount of PSC exceeds its estimated recoverable amount based on value-in -use calculations and an impairment loss of HK$424,306,000 was recognised in the consolidated income statement for the year ended 31 December 2011.

## 17. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **–** | – |
| Loan to a subsidiary *(note (a))* | **2,254,004** | 2,254,004 |
| Interests in subsidiaries | **2,254,004** | 2,254,004 |
| Amounts due from subsidiaries *(notes (b) (c))* | **501,307** | 438,467 |
| Less: Impairment loss *(note (b))* | **(244,026)** | (353,740) |
| | **257,281** | 84,727 |
| Amounts due to subsidiaries *(note (c))* | **–** | 52,475 |

(a) The loan to a subsidiary of HK$2,254,004,000 (2010: HK$2,254,004,000) is unsecured, interest free and will not be demanded for repayment. In the opinion of the directors of the Company, this loan in substance forms part of the Company's investment cost in a wholly-owned subsidiary, Nation Rich Investments Limited. The estimated recoverable amount of the investment cost in the subsidiary exceeded its carrying amount and therefore, no impairment is required at the end of the reporting period.

(b) An allowance for amounts due from subsidiaries of HK$244,026,000 (2010: HK$353,740,000) was recognised as at 31 December 2011 because the related recoverable amounts of the balances due from subsidiaries were estimated to be less than their carrying amounts, after taking into account of the financial position of the subsidiaries. During the year ended 31 December 2011, debts of HK$65,489,000 were written off due to the de-registration of a subsidiary and reversal of impairment of HK$44,225,000 on the amount due from another wholly-owned subsidiary was recognised after the sale of the disposal group (note (12)).

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

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

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

| Name | Place of incorporation/ operation | Proportion of ownership interest: Group's effective holding | Held by the Company | Held by a subsidiary | Nominal value of issued ordinary shares/paid up capital | Principal activities |
|---|---|---|---|---|---|---|
| Barraza Company Limited | Hong Kong | 100% | 100% | – | HK$2 | Provision of secretarial services |
| Ever Double Investments Limited | British Virgin Islands ("BVI") | 100% | 100% | – | US$1 | Investment holding |
| U-Cyber Investment (Nominees) Limited | Hong Kong | 100% | 100% | – | HK$2 | Inactive |
| Marvel Time Holdings Limited | BVI | 100% | 100% | – | US$1 | Investment holding |
| Strong Way International Limited | Hong Kong | 60% | – | 60% | HK$1,000,000 | Electronic components trading |
| Nation Rich Investments Limited | BVI | 100% | 100% | – | US$1 | Investment holding |
| Merit First Investments Limited | BVI | 100% | – | 100% | US$1 | Investment holding |
| Powerful Sky Investments Limited | BVI | 100% | – | 100% | US$1 | Investment holding |
| Canada Can-Elite Energy Limited | Canada | 100% | – | 100% | Can$10,000 | Coalbed methane gas exploration and development and exploitation |
| Champ Success International Limited | Hong Kong | 80% | – | 80% | HK$2 | Electronic components trading |
| Goal Reach Investments Limited | Hong Kong | 100% | – | 100% | HK$1 | Investment holding |
| Magic Chance Investments Limited | BVI | 100% | 100% | – | US$1 | Securities trading |
| Wisedeal Investments Limited | BVI | 100% | 100% | – | US$1 | Investment holding |
| Famous (China) Limited | Hong Kong | 100% | 100% | – | HK$1 | Inactive |

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

(d) *(Continued)*

| Name | Place of incorporation/ operation | Proportion of ownership interest: Group's effective holding | Held by the Company | Held by a subsidiary | Nominal value of issued ordinary shares/paid up capital | Principal activities |
|---|---|---|---|---|---|---|
| U-Cyber (Nominees) Limited | Hong Kong | 100% | 100% | – | HK$2 | Inactive |
| New Smart Holdings Limited | Hong Kong | 100% | 100% | – | HK$2 | Investment holding |
| New Smart Credit Service Limited | Hong Kong | 100% | 100% | – | HK$1 | Provision of financing services |
| Fortune Spring International Limited | BVI | 100% | 100% | – | US$1 | Inactive |
| Profit Giant Investments Limited | BVI | 100% | – | 100% | US$1 | Inactive |
| Smart Class Investments Limited | Hong Kong | 100% | 100% | – | HK$1 | Inactive |
| 聯榮商務諮詢(北京)有限公司 (Note) | PRC | 100% | – | 100% | HK$1,000,000 | Inactive |
| 駿達朝揚(北京)投資管理諮詢有限公司 (Note) | PRC | 100% | – | 100% | HK$2,000,000 | Property investment |

*Note:* These companies are wholly foreign-owned enterprises established in the PRC.

## 18. INTEREST IN AN ASSOCIATE

| | The Group and The Company 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **50** | 50 |
| Less: Impairment loss | **(50)** | (50) |
| | **–** | – |

The associate did not have any material profit or loss and cash flows for the year and net assets as at 31 December 2011 and 2010.

Particulars of the associate are as follows:

| Name | Place of incorporation/ operation | Particulars of issued capital | Percentage of attributable equity interest 2011 | 2010 | Principal activity |
|---|---|---|---|---|---|
| Zhong Hang Yu (H.K.) Limited | Hong Kong | HK$100,000 | **50%** | 50% | Inactive |

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | The Group and The Company | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Club debentures | **1,000** | 2,641 |

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| **Held for trading, equity securities listed in Hong Kong** | | |
| At 1 January | **–** | – |
| Additions | | |
| – Purchase | **18,661** | – |
| – Conversion | **5,277** | – |
| Disposals | **(10,448)** | – |
| Fair value adjustment | **(2,012)** | – |
| At 31 December | **11,478** | – |
| **Designated upon initial recognition, unlisted convertible notes** | | |
| At 1 January | **–** | – |
| Purchase | **15,000** | – |
| Converted into listed securities (see above) | **(5,000)** | – |
| Fair value adjustment | **294** | – |
| At 31 December | **10,294** | – |
| Total | **21,772** | – |

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

*Notes:*

(a) The fair value of the listed securities are determined by reference to their quoted market bid prices available on the relevant exchange at the end of the reporting period. The change in fair value of HK$2,012,000 was recognised in the consolidated income statement for the year ended 31 December 2011.

(b) During the year ended 31 December 2011, the Group purchased unlisted convertible notes issued by a listed company in Hong Kong. These unlisted convertible notes were designated as financial assets at fair value through profit or loss. The fair value of these convertible notes of HK$10,294,000 as at 31 December 2011 was determined by Cushman & Wakefield Valuation Advisory Services (HK) Ltd, an independent firm of professional valuers with qualification and experience on the similar financial instruments. The issuer of the convertible notes may redeem at any time after the expiry of six months from the issue date to the maturity date by giving not less than 30 days prior notice. All of the unlisted convertible notes were redeemed by the issuer in February 2012. For the year ended 31 December 2011, the change in fair value of the embedded derivative amounted to HK$294,000 was recognised in the consolidated income statement.

## 21. LOAN RECEIVABLE

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Treasury business: | | |
| – secured short-term loan | **30,000** | – |

The secured short-term loan represents a loan advanced to an independent corporate borrower, bore interest at 2.25% per month and due for repayment on 5 March 2012. As the Group has collateral over the borrower's property and the market value of the mortgaged property exceeded the carrying value of loan receivable, the directors of the Company are of the view that no impairment loss is required as at 31 December 2011.

## 22. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other receivables *(note (a))* | **85,364** | 801 | **35,152** | 545 |
| Deposits and prepayments | **1,726** | 1,917 | **669** | 656 |
| | **87,090** | 2,718 | **35,821** | 1,201 |
| Trade debtors | **2,086** | 3,652 | **–** | – |
| Less: allowance for doubtful debts *(note (c))* | **(332)** | (332) | **–** | – |
| | **1,754** | 3,320 | **–** | – |
| | **88,844** | 6,038 | **35,821** | 1,201 |

*Notes:*

(a) Included in other receivables of the Group and the Company were aggregate sums of HK$85,000,000 (2010: Nil) and HK$35,000,000 (2010: Nil) which were placed at the escrow accounts of a firm of solicitors which acts as an escrow agent for the Group and the Company. The Group and the Company have instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to note 34 (a). The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sums can be recovered in full and therefore no impairment is required as at 31 December 2011.

(b) Ageing analysis

The ageing analysis of the trade receivables of the Group, net of allowance for doubtful debts, is as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **1,283** | 2,910 |
| Less than 1 month past due | **422** | 392 |
| 1 to 3 months past due | **49** | 18 |
| Amounts past due | **471** | 410 |
| | **1,754** | 3,320 |

The credit terms granted to trade receivables in respect of sales of electronic components are due within 30 to 90 days from the date of billing.

## 22. TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes: (Continued)*

(c) Impairment of trade receivables

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

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **332** | 298 |
| Impairment loss recognised | **–** | 34 |
| At 31 December | **332** | 332 |

At 31 December 2011, the Group's trade receivables of HK$332,000 (2010: HK$ 332,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of HK$ Nil (2010: HK$34,000) were recognised. The Group does not hold any collateral over the trade receivable balances.

(d) Trade receivables that are not impaired

Receivables that were past due but not impaired relate a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 23. CASH AND BANK BALANCES

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash at banks and in hand | **167,752** | 346,803 | **45,151** | 337,044 |
| Cash and bank balances included in the disposal group held for sale | **–** | 9,983 | **–** | – |
| Less: Pledged bank deposits | **(3,150)** | (3,150) | **–** | – |
| Cash and cash equivalents in the consolidated statement of cash flows | **164,602** | 353,636 | **45,151** | 337,044 |

**23. CASH AND BANK BALANCES *(Continued)***

Bank balances carry interest ranging from 0.01% to 2.10% (2010: from 0.04% to 0.7%) per annum. The pledged bank deposits amounting to HK$3,150,000 (2010: HK$3,150,000) carry fixed interest rate of 0.18% (2010: 0.18%) per annum. Pledged bank deposits are pledged to a bank to secure banking facilities granted to the Group.

**24. SHARE CAPITAL**

| | Number of ordinary shares | Nominal value of ordinary shares *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 1 January 2010 ordinary shares of HK$0.01 each | 20,000,000,000 | 200,000 |
| Share consolidation *(note (a))* | (15,000,000,000) | – |
| Increase in authorised share capital *(note (a))* | 45,000,000,000 | 1,800,000 |
| At 31 December 2010 and 1 January 2011 ordinary shares of HK$0.04 each | 50,000,000,000 | 2,000,000 |
| Share consolidation *(note (b))* | (25,000,000,000) | – |
| At 31 December 2011 ordinary shares of HK$0.08 each | 25,000,000,000 | 2,000,000 |
| Issued and fully paid: | | |
| At 1 January 2010 | 6,616,254,804 | 66,163 |
| Share consolidation *(note (a))* | (6,502,421,673) | – |
| Issue of new shares | | |
| – upon conversion of convertible notes *(note (c))* | 391,304,347 | 3,913 |
| – upon placing of shares *(note (d))* | 1,300,000,000 | 13,000 |
| – upon exercise of bonus warrants *(note (e))* | 489,645,856 | 8,716 |
| – upon rights issue *(note (f))* | 4,343,689,872 | 173,747 |
| At 31 December 2010 and 1 January 2011 | 6,638,473,206 | 265,539 |
| Share consolidation *(note (b))* | (3,319,236,603) | – |
| Issue of new shares upon open offer *(note (g))* | 3,319,236,603 | 265,539 |
| At 31 December 2011 | 6,638,473,206 | 531,078 |

**24. SHARE CAPITAL *(Continued)***

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All the ordinary shares rank equally with regard to the Company's residual assets.

**(a) Capital reorganisation**

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 28 October 2010, every four issued and unissued shares of HK$0.01 each were consolidated into one new share of HK$0.04 each with effect from 29 October 2010.

Following the share consolidation became effective on 29 October 2010, the authorised share capital of the Company was increased from HK$200,000,000 divided into 5,000,000,000 shares of HK$0.04 each to HK$2,000,000,000 divided into 50,000,000,000 of HK$0.04 each, of which 2,167,473,891 shares were in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with the existing ordinary shares with each other.

**(b) Share consolidation**

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 16 September 2011, every two issued and unissued shares of HK$0.04 each were consolidated into one consolidated share of HK$0.08 each with effect from 19 September 2011.

**(c) Issue of new shares upon conversion of convertible notes**

On 9 April 2010, convertible notes with the principal amount of HK$90,000,000 were converted into 391,304,347 ordinary shares of the Company of HK$0.01 each at an adjusted conversion price of HK$0.23 per share, out of which HK$3,913,000 was recorded in share capital and HK$96,661,000 was recorded in share premium.

**(d) Issue of new shares upon placing of shares**

On 13 January 2010, the Company placed and 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$76,524,000, out of which HK$13,000,000 and HK$63,524,000 were recorded in share capital and share premium, respectively.

**(e) Issue of new shares upon exercise of bonus warrants**

During the year ended 31 December 2010, warrant holders exercised their rights to subscribe for 362,336,413, 4,371,045 and 122,938,398 ordinary shares at subscription price of HK$0.05, HK$0.20 and HK$0.16 per share respectively. The remaining 169,825,435 units of bonus warrants lapsed on the expiry date as of 12 November 2010.

**24. SHARE CAPITAL *(Continued)***

**(f) Issue of new shares upon rights issue**

On 1 December 2010, the Company issued and allotted 4,343,689,872 ordinary shares of HK$0.04 each to the qualifying shareholders pursuant to the rights issue on the basis of two rights shares of every share held on 8 November 2010 at a subscription price of HK$0.112 per share.

**(g) Issue of new shares upon open offer**

On 24 October 2011, the Company issued 3,319,236,603 new ordinary shares of HK$0.08 each at a price of HK$0.098 per share on the basis of one offer share for every one share held on 27 September 2011, the record date of the open offer. Net proceeds from such issue amounted to HK$313,244,000, out of which HK$265,539,000 and HK$47,705,000 were recorded in share capital and share premium, respectively.

All the new shares issued during the years ended 31 December 2011 and 2010 ranked pari passu with the then existing shares in all respects.

## 25. RESERVES

### (a) The Group

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share premium** | **Capital redemption reserve** | **Special capital reserve** | **Other capital reserve** | **Investment reserve** | **Exchange reserve** | **Statutory reserve** | **Accumulated losses** | **Sub-total** | **Non-controlling interests** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *Note(c)(i)* | *Note(c)(i)* | *Note(c)(ii)* | *Note(c)(v)* | *Note(c)(iii)* | *Note(c)(iv)* | *Note(c)(vi)* | | | | |
| At 1 January 2010 | 876,044 | 5,318 | 492,172 | 1,805 | 949 | 47,549 | 6,170 | (321,528) | 1,108,479 | – | 1,108,479 |
| Issue of new shares: | | | | | | | | | | | |
| – upon conversion of convertible notes *(note 24 (c))* | 96,661 | – | – | – | – | – | – | – | 96,661 | – | 96,661 |
| – upon placing of shares (note 24(d)) | 63,524 | – | – | – | – | – | – | – | 63,524 | – | 63,524 |
| – upon exercise of bonus warrants *(note 24(e))* | 29,945 | – | – | – | – | – | – | – | 29,945 | – | 29,945 |
| – upon rights issue *(note 24(f))* | 283,977 | – | – | – | – | – | – | – | 283,977 | – | 283,977 |
| Profit for the year | – | – | – | – | – | – | – | 10,442 | 10,442 | (473) | 9,969 |
| Other comprehensive income | | | | | | | | | | | |
| Exchange differences arising on translation | – | – | – | – | – | 98,945 | – | – | 98,945 | – | 98,945 |
| Total comprehensive income for the year | – | – | – | – | – | 98,945 | – | 10,442 | 109,387 | (473) | 108,914 |
| At 31 December 2010 and 1 January 2011 | 1,350,151 | 5,318 | 492,172 | 1,805 | 949 | 146,494 | 6,170 | (311,086) | 1,691,973 | (473) | 1,691,500 |
| Issue of new shares upon open offer *(note 24(g))* | 47,705 | – | – | – | – | – | – | – | 47,705 | – | 47,705 |
| Loss for the year | – | – | – | – | – | – | – | (393,397) | (393,397) | (672) | (394,069) |
| Other comprehensive income | | | | | | | | | | | |
| – Exchange differences arising on translation | – | – | – | – | – | 95,397 | – | – | 95,397 | – | 95,397 |
| –reclassification adjustment on sale of disposal group *(note 12)* | – | – | – | – | – | (28,287) | – | – | (28,287) | – | (28,287) |
| –impairment loss in available-for-sale financial assets | – | – | – | – | (949) | – | – | – | (949) | – | (949) |
| Total comprehensive income for the year | – | – | – | – | (949) | 67,110 | – | (393,397) | (327,236) | (672) | (327,908) |
| At 31 December 2011 | 1,397,856 | 5,318 | 492,172 | 1,805 | – | 213,604 | 6,170 | (704,483) | 1,412,442 | (1,145) | 1,411,297 |

## 25. RESERVES *(Continued)*

### (b) The Company

| | Share premium | Capital redemption reserve | Special capital reserve | Investment reserve | Exchange reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *Note(c)(i)* | *Note(c)(i)* | *Note(c)(ii)* | *Note(c)(iii)* | *Note(c)(iv)* | | |
| At 1 January 2010 | 876,044 | 5,318 | 492,172 | 949 | (1,658) | (761,491) | 611,334 |
| Issue of new shares: | | | | | | | |
| –upon conversion of convertible notes *(note 24(c))* | 96,661 | – | – | – | – | – | 96,661 |
| – upon placing of shares *(note 24(d))* | 63,524 | – | – | – | – | – | 63,524 |
| – upon exercise of bonus warrants *(note 24(e))* | 29,945 | – | – | – | – | – | 29,945 |
| – upon rights issue *(note 24 (f))* | 283,977 | – | – | – | – | – | 283,977 |
| Profit for the year | – | – | – | – | – | 116,633 | 116,633 |
| Total comprehensive income for the year | – | – | – | – | – | 116,633 | 116,633 |
| At 31 December 2010 and 1 January 2011 | 1,350,151 | 5,318 | 492,172 | 949 | (1,658) | (644,858) | 1,202,074 |
| Issue of new shares upon open offer *(note 24(g))* | 47,705 | – | – | – | – | – | 47,705 |
| Profit for the year | – | – | – | – | – | 58,371 | 58,371 |
| Other comprehensive income | | | | | | | |
| – Impairment loss in Available-for-sale financial assets | – | – | – | (949) | – | 949 | – |
| – reclassification adjustment on sale of disposal group *(note 12)* | – | – | – | – | 1,658 | – | 1,658 |
| Total comprehensive income for the year | – | – | – | (949) | 1,658 | 59,320 | 60,029 |
| At 31 December 2011 | 1,397,856 | 5,318 | 492,172 | – | – | (585,538) | 1,309,808 |

**25. RESERVES *(Continued)***

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 2009, respectively, all such recoveries up to maximum amounts of HK$367,938,293, in relation to 2003 Capital Reduction and HK$130,663,000, in relation to 2009 Capital Reduction, will be credited to a special capital reserve of the Company, which shall not be treated as realised profits for the purpose of section 79B of the Hong Kong Companies Ordinance and shall be treated as an un-distributable reserve of the Company for the purpose of section 79C of the Hong Kong Companies Ordinance.

At 31 December 2011 and 2010, no credit transfer to this special capital reserve was made by the Company as there were no recoveries in respect of these provisions against certain specific subsidiaries at 2011 and 2010.

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

*(i) Share premium and capital redemption reserve*

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

*(ii) Special capital reserve*

Pursuant to the reduction in capital of the Company completed on 21 July 2009 ("2009 Capital Reduction"), the amount of HK$492,172,000 by which the capital reduction exceeds the total accumulated losses of permanent nature of the Company as at 31 December 2008, has been credited to a special capital reserve of the Company which shall not be treated as realised profits for the purpose of Section 79B of the Hong Kong Companies Ordinance and shall be treated as an un-distributable reserve of the Company for the purpose of Section 79C of the Hong Kong Companies Ordinance.

*(iii) Investment reserve*

The investment reserve has been set up and is dealt with in accordance with accounting policy adopted for available-for-sale financial assets in note 3(g).

*(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and foreign operations. The reserve is dealt with in accordance with the accounting policies in note 3(y).

## 25. RESERVES *(Continued)*

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

*(v) Other capital reserve*

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

*(vi) Statutory reserve*

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

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

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

*(vii) Distributable reserves*

As at 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance was Nil (2010: Nil).

### (d) Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of a net debt-to-capital ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and bank balances. Adjusted capital comprises all components of equity, plus net debt.

## 25. RESERVES *(Continued)*

### (d) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2011 and 2010 was as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Other borrowings | **19,069** | 20,035 |
| Convertible notes | **751,499** | 1,152,042 |
| Less: Cash and bank balances | **(167,752)** | (346,803) |
| Net debt from continuing operations | **602,816** | 825,274 |
| Bank loans | **–** | 16,499 |
| Other borrowings | **–** | 569 |
| Less: Cash and bank balances | **–** | (9,983) |
| Net debt from discontinued operation | **–** | 7,085 |
| Total net debt | **602,816** | 832,359 |
| Total equity | **1,942,375** | 1,957,039 |
| Adjusted capital | **2,545,191** | 2,789,398 |
| Net debt-to-adjusted capital | **23.68%** | 29.84% |

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

## 26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") approved by the shareholders on 29 December 2004. The Scheme became effective on 29 December 2004 and will remain in force for 10 years from that date. Under which the directors of the Company may, at their discretion, offer any eligible participants (including any directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. For each lot of the share options granted, the participants will pay a nominal consideration of HK$1. The period within which the shares must be exercised under an option is determined by the board of directors of the Company from time to time, except that such period shall not expire more than ten years from the date of grant of the options.

## 26. SHARE OPTION SCHEME *(Continued)*

The exercise price of the share options is determinable by the directors, that it shall be at least the higher of (i) the closing price of the Company's shares on the Stock Exchange on that date of grant of share options, (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at 10 June 2009. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

No share options were granted and exercised during the two years ended 31 December 2011 and 2010.

## 27. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("**the MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employee employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately. The Group has no other material obligation for the payment of pension benefits associated with the MPF Scheme beyond the annual contributions described above.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in a defined contribution retirement scheme organised by the local government, whereby the Group is required to make contributions to the pension fund scheme at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

The Group's contributions to employee retirement benefits for the years ended 31 December 2011 were HK$316,000 (2010: HK$329,000). As at 31 December 2011, there was no material outstanding contribution to employee retirement benefits.

## 28. OTHER BORROWING, UNSECURED

Other borrowing, related to the CBM business under the PSC (note (16)) and payable to an independent third party, is unsecured, interest free and with no fixed repayment terms.

## 29. CONVERTIBLE NOTES

On 26 November 2008, the Company issued convertible notes with an aggregated principle amount of HK$2,000,000,000 with a term of five years as settlement of part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited. The notes are unsecured and carry zero coupon interest rate. The notes are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 (subject to adjustments) per conversion share at any time during the period commencing from the date of issue of convertible notes. The adjusted conversion price is HK$1.24 after the share consolidation and open offer completed in 2011.

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.

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

At the end of the reporting period, the fair value of the embedded derivatives portion of the convertible notes were revalued by an independent professional valuer, Cushman & Wakefield Valuation Advisory Services (HK) Ltd using the Binomial Lattice Model, and the change in the fair value of the embedded derivatives of HK$29,978,000 (2010: HK$179,550,000) was credited to the consolidated income statement for the year ended 31 December 2011. Implicit interest is accrued on the liability component of the convertible notes using the effective interest method by applying the effective interest rate of 1.29% per annum. During the year ended 31 December 2011, the Company early redeemed convertible notes with principal value of HK$392,417,000, resulting in a gain of HK$1,587,000 on early redemption which was recognised in profit or loss for the year ended 31 December 2011. As at 31 December 2011, the principal amount of outstanding convertible notes is HK$770,000,000 (2010: HK$1,162,417,000).

**29. 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:

| | The Group and the Company | | |
|---|---|---|---|
| | **Embedded derivatives portion** | **Liability portion** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| 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 consolidated income statement | – | 14,651 | 14,651 |
| Decrease in fair value credited to 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$1,162,417,000) as at 31 December 2010 and 1 January 2011 | 32,290 | 1,119,752 | 1,152,042 |
| Imputed interest charged to consolidated income statement | – | 12,940 | 12,940 |
| Decrease in fair value credited to consolidated income statement | (29,978) | – | (29,978) |
| Redemption | (2,191) | (381,314) | (383,505) |
| Carrying amount of convertible notes (with principal value of HK$ 770,000,000) as at 31 December 2011 | 121 | 751,378 | 751,499 |

**29. CONVERTIBLE NOTES *(Continued)***

The following key inputs and data were applied to the Binomial Lattice Model for the derivatives embedded in the convertible notes at 31 December 2011:

| | **31/12/2011** | 31/12/2010 |
|---|---|---|
| Spot price of the Company's shares | **HK$0.09** | HK$0.163* |
| Exercise price of the Company's shares | **HK$1.24** | HK$0.76* |
| Risk free rate | **0.369%** | 0.931% |
| Expected life | **1.9 years** | 2.9 years |
| Expected volatility of the Company's shares | **74.16%** | 96.04% |
| Expected dividend yield | **0%** | 0% |

* *These market prices at relevant dates and the exercise price had not been restated for effects arising from the subsequent share consolidation and open offer on 19 September 2011 and 24 October 2011, respectively.*

The spot price at the valuation date was extracted from Bloomberg. The risk free rate was determined with reference to the yield of the Hong Kong Exchange Fund Notes with duration similar to the expected life of the conversion options embedded in the convertible notes as extracted from Bloomberg.

**30. PROMISSORY NOTES, UNSECURED-2010**

On 26 November 2008, the Company issued HK$240,000,000 unsecured redeemable promissory notes as settlement for part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited. The promissory notes were repayable in one lump sum on maturity of 1.5 years i.e. 26 May 2010. The promissory notes bore zero coupon rate.

On 20 January 2010 and 27 April 2010, promissory notes with principal value of HK$60,000,000 and HK$7,583,000 were early redeemed at face value of HK$54,293,000 and HK$7,411,000, respectively. A loss of HK$5,879,000 on redemption was recognised in profit or loss for the year ended 31 December 2010. On 21 April 2010, the maturity of promissory notes with principal value of HK$160,000,000 was first extended maturity from 26 May 2010 to 26 May 2011 and then further extended to 31 October 2011, resulting a gain on restructure of promissory notes of HK$21,278,000 which was recognised in profit or loss for the year ended 31 December 2010. On 3 December 2010, the Company early redeemed all remaining promissory notes with principal value of HK$160,000,000 with carrying amount of HK$145,742,000, resulting a loss on early redemption of HK$14,258,000 which was recognised in profit or loss for the year ended 31 December 2010. There was no outstanding promissory note as at 31 December 2011.

## 31. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(a)** Current taxation on the consolidated statement of financial position:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Provision for current year | | |
| – PRC Corporate Income Tax | **2,624** | – |
| – Hong Kong Profits Tax | **54** | – |
| | **2,678** | – |

**(b)** The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

| | **Fair value adjustments on business combination** |
|---|---|
| | *HK$'000* |
| At 1 January 2010 | 904,571 |
| Credit to consolidated income statement *(note 11(a))* | (31,642) |
| Exchange adjustments | 33,531 |
| At 31 December 2010 and 1 January 2011 | 906,460 |
| Credit to consolidated income statement *(note 11(a))* | (139,294) |
| Exchange adjustments | 32,067 |
| At 31 December 2011 | 799,233 |

**(c)** **Deferred tax assets not recognised**

Deferred taxation assets of the Group and the Company amounting to HK$6,366,000 (2010: HK$6,057,000) and HK$3,291,000 (2010: HK$3,291,000), respectively, arising from unused tax losses have not been recognised in the financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

## 32. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade payables | **3,980** | 8,080 | **–** | – |
| Other payables | **28,456** | 28,362 | **–** | 5,864 |
| Accrued operating expenses | **3,253** | 2,767 | **1,063** | 1,878 |
| | **35,689** | 39,209 | **1,063** | 7,742 |

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

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current –within 1 month | **1,026** | 3,263 |
| More than 1 month but within 3 months | **2,204** | 3,893 |
| More than 3 months but within 6 months | **240** | 564 |
| More than 6 months | **510** | 360 |
| | **3,980** | 8,080 |

## 33. COMMITMENTS

(a) Capital commitments outstanding as 31 December 2011 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Production sharing contract | | |
| – Authorised but not contracted for | **413** | 12,467 |
| – Contracted for but not provided for | **31,610** | 22,462 |
| | **32,023** | 34,929 |

**33. COMMITMENTS *(Continued)***

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **658** | 2,613 |
| After I year but within 5 years | **60** | 580 |
| After 5 years | **–** | – |
| | **718** | 3,193 |

**34. CONTINGENCIES**

**(a) Legal proceedings**

During the year, the Group and the Company had placed escrow sums of HK$85,000,000 and HK$35,000,000 respectively with a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group and the Company. Despite the repeated requests served to K&L Gates for the release of the escrow sums, the Group and the Company had not received the escrow sums. It was reported that a partner in K&L Gates was arrested by the Hong Kong Police and charged with theft and forgery with respect to escrow monies held in escrow accounts. The Group and the Company have instituted legal proceedings against K&L Gates, claiming for the return of the escrow sums. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sums can be recovered in full, and therefore, no impairment is required as at 31 December 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.

## 35. MATERIAL RELATED PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material related party transactions.

**Key management personnel compensation**

| | **2011** | 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and benefits in kind | **8,139** | 8,513 |
| Discretionary bonus | **217** | 358 |
| Retirement scheme contributions | **96** | 85 |
| | **8,452** | 8,956 |

Total remuneration is included in "staff costs" (see note (8)).

## 36. POSSIBLE IMPACT OF AMENDMENTS, STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| HKAS 19 (as revised in 2011) | Employee Benefits[2] |
| HKAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

# FINANCIAL SUMMARY

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Continuing operations: | | | | | |
| Revenues | **36,375** | 46,163 | 45,576 | 49,323 | 59,458 |
| (Loss)/profit before taxation | **(565,104)** | (21,673) | (540,107) | 471,509 | (226,033) |
| Income tax credit | **136,616** | 31,642 | 31,169 | 2,571 | – |
| (Loss)/Profit for the year from continuing operations | **(428,488)** | 9,969 | (508,938) | 474,080 | (226,033) |
| Profit/(Loss) for the year from discontinued operations, net | **34,419** | – | (71,757) | (163,641) | 24,464 |
| (Loss)/profit for the year | **(394,069)** | 9,969 | (580,695) | 310,439 | (201,569) |
| Other comprehensive income for the year | **66,161** | 98,945 | 17,709 | 8,169 | 16,133 |
| Total comprehensive (loss)/income for the year | **(327,908)** | 108,914 | (562,986) | 318,608 | (185,436) |
| Profit/(loss) for the year attributable to: | | | | | |
| Owner of the Company | **(393,397)** | 10,442 | (580,695) | 310,439 | (201,546) |
| Non-controlling interests | **(672)** | (473) | – | – | (23) |
| | **(394,069)** | 9,969 | (580,695) | 310,439 | (201,569) |
| **Assets and liabilities** | | | | | |
| Total assets | **3,550,543** | 4,120,526 | 3,795,040 | 3,983,270 | 413,203 |
| Total liabilities | **(1,608,168)** | (2,163,487) | (2,620,398) | (3,245,042) | (88,083) |
| Total equity | **1,942,375** | 1,957,039 | 1,174,642 | 738,228 | 325,120 |