

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 General information

The principal activities of the Group are property investment and technology related business. The Company is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of the Stock Exchange. The address of its registered office is Units 903-905A, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

By a special resolution passed on 6 September 2006, the name of the Company was changed from “New Smart Holdings Limited 駿新集團有限公司” to “New Smart Energy Group Limited 駿新能源集團有限公司”. The change of name will become effective after the issuance of a Certificate of Change of Name by the Registrar of Companies in Hong Kong.

This interim financial information has been approved by the Board of Directors on 13 September 2006.

2 Basis of preparation

The interim financial information has been prepared under the historic cost convention, as modified by the revaluation of certain investments, and in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

For the six months ended 30 June 2006, the Group has also applied for the first time, a number of new standards, amendments and interpretations that become effective for accounting periods beginning on or after 1 January 2006. The adoption of these new standards has no material impact on the accounting policies, results and financial position of the Group.

3 Financial risk management

All aspects of the financial risk management objectives and policies of the Group are consistent with those disclosed in the annual financial statements for the year ended 31 December 2005.

4 Critical accounting estimates and judgements

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

5 Segment information

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of non-current assets, inventories and receivables. Segment liabilities comprise of creditors and accruals. There are no sales or trading transactions between the business segments. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(a) Business segments

	Property investment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the six months ended 30 June 2006				
Turnover	<u>–</u>	<u>37,318</u>	<u>–</u>	<u>37,318</u>
Segment results	(7)	1,217	(23,273)	(22,063)
Financial expenses				<u>(151)</u>
Loss before taxation				(22,214)
Taxation credit				<u>57</u>
Loss for the period				<u>(22,157)</u>
Capital expenditure	–	–	21	21
Depreciation	–	48	285	333
Impairment of available-for-sale financial assets	<u>–</u>	<u>–</u>	<u>2,020</u>	<u>2,020</u>
As at 30 June 2006				
Segment assets	1	22,883	57,977	<u>80,861</u>
Segment liabilities	30	32,081	31,162	63,273
Unallocated liabilities				<u>5,842</u>
Total liabilities				<u>69,115</u>

5 Segment information (Continued)

(a) Business segments (Continued)

	Property investment <i>HK\$'000</i>	Technology <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the six months ended 30 June 2005				
Turnover	–	32,792	18,131	50,923
Segment results	(12)	(2,000)	(14,458)	(16,470)
Financial expenses				(107)
Loss for the period				(16,577)
Capital expenditure	–	22	–	22
Depreciation	–	125	247	372
As at 31 December 2005				
Segment assets	1	4,602	27,040	31,643
Segment liabilities	30	21,421	15,893	37,344
Unallocated liabilities				5,899
Total liabilities				43,243

(b) Geographical segments

	Turnover		Operating results	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong	37,318	44,616	(21,997)	(16,571)
Mainland China	–	6,307	(66)	101
	<u>37,318</u>	<u>50,923</u>	<u>(22,063)</u>	<u>(16,470)</u>
			30 June 2006 <i>HK\$'000</i>	31 December 2005 <i>HK\$'000</i>
Total assets				
Hong Kong			71,872	22,593
Mainland China			8,989	9,050
			<u>80,861</u>	<u>31,643</u>

6 Operating loss

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Operating loss is stated after crediting:		
Interest income from bank	47	39
Operating lease rental income for land and buildings	160	33
Exchange gain	54	–
	<u> </u>	<u> </u>
and after charging:		
Cost of inventories sold	32,075	26,713
Depreciation	333	372
Operating lease rental expenses for land and buildings	478	246
Bad and doubtful debts	–	464
Impairment for inventories	–	1,781
Impairment of available-for-sale financial assets	2,020	–
Staff costs (including Directors' emoluments)		
Salaries and other emoluments	7,951	8,338
Share options granted	12,357	–
Contributions to retirement scheme	223	226
	<u> </u>	<u> </u>

7 Senior management compensation

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Fees	455	480
Salaries and other emoluments	2,360	2,604
Share options granted	155	–
Contributions to retirement scheme	18	18
	<u> </u>	<u> </u>
	<u>2,988</u>	<u>3,102</u>

8 Financial expenses

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank loans and overdrafts	137	93
Interest on finance lease obligations wholly repayable within five years	14	14
	<u> </u>	<u> </u>
	<u>151</u>	<u>107</u>

9 Taxation credit

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong profits tax		
Over-provision in prior years	<u>57</u>	<u>-</u>

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profit for the Period (2005: nil).

10 Loss per share

The calculation of loss per share is based on the loss attributable to equity holders for the Period of HK\$22,157,000 (2005: HK\$16,577,000) and on the weighted average of 640,906,490 (2005: 610,584,391) shares in issue during the Period.

There is no diluted loss per share since the outstanding share options are anti-dilutive.

11 Plant and equipment

	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book amount				
At 31 December 2004	697	1,461	460	2,618
Additions	22	-	-	22
Depreciation	<u>(186)</u>	<u>(186)</u>	<u>-</u>	<u>(372)</u>
At 30 June 2005	533	1,275	460	2,268
Additions	2	-	-	2
Disposals	(117)	-	(119)	(236)
Depreciation	<u>(175)</u>	<u>(184)</u>	<u>(92)</u>	<u>(451)</u>
At 31 December 2005	243	1,091	249	1,583
Changes in exchange rates	1	-	-	1
Additions	21	-	-	21
Depreciation	<u>(117)</u>	<u>(185)</u>	<u>(31)</u>	<u>(333)</u>
At 30 June 2006	<u>148</u>	<u>906</u>	<u>218</u>	<u>1,272</u>

12 Debtors and prepayments

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Trade debtors	19,213	9,080
Deposits and prepayments	3,064	2,412
	<u>22,277</u>	<u>11,492</u>

The credit terms granted to trade debtors in respect of sales of electronic components are usually 30 to 90 days. Rental income from tenants is due and payable in advance.

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

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Below 30 days	8,605	3,174
30 to 90 days	9,711	4,497
91 to 180 days	515	1,264
Over 180 days	382	145
	<u>19,213</u>	<u>9,080</u>

13 Share capital

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Authorised: 1,000,000,000 shares of HK\$0.25 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid: 745,214,391 (2005: 610,584,391) shares of HK\$0.25 each	<u>186,304</u>	<u>152,646</u>

On 19 May 2006, the Company allotted and issued 120,000,000 new shares of HK\$0.25 each at the issue price of HK\$0.25 per share for cash. Net proceeds from the placing have been applied as part of the consideration for the acquisition for the entire interest of Sanxia Gas, which was completed in August 2006 and part as general working capital. All the new shares rank pari passu to the existing shares.

13 Share capital (Continued)

The Company also operates a share option scheme, 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. Movements in the numbers of share options during the Period are as follows:

	Number of options	
	2006	2005
At beginning of period	43,620,000	–
Granted	87,140,000	–
Exercised	(14,630,000)	–
At end of period	<u>116,130,000</u>	<u>–</u>

On 8 March 2006 and 1 June 2006, share options were granted to employees at the exercise price of HK\$0.2648 and HK\$0.29 per share, respectively. These options can be exercised at any time during the period from 8 April 2006, 8 September 2006 or 1 July 2006 to 7 March 2011 or 31 May 2011. At the date before the options were granted, the market value per share were HK\$0.244 and HK\$0.285, respectively.

The fair value of the options granted during the Period is HK\$12,357,000, as determined using the Black-Scholes valuation model. The significant inputs into the model are share price of HK\$0.25 and HK\$0.29 at the respective valuation date, respective exercise price of HK\$0.2628 and HK\$0.29 per share, standard deviations of expected share price returns of 73.02% and 73.35%, expected life of the options of 2 to 3 years, expected dividend paid out rate of 0% and annual risk-free interest rate of 4.17% to 4.54%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

14 Creditors and accruals

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Trade creditors	29,160	19,520
Bills payable	1,204	–
Amount due to a Director	23,558	5,730
Amount due to an associated company	36	38
Amount due to a related company	2,518	2,518
Other creditors and accrued expenses	6,264	8,859
	<u>62,740</u>	<u>36,665</u>

The amount payable to the Director, Mr. Tong Nai Kan, is unsecured, interest free and has no specific repayment terms.

14 Creditors and accruals *(Continued)*

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

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Below 30 days	7,421	2,932
30 to 90 days	14,136	7,374
91 to 180 days	6,371	8,770
Over 180 days	1,232	444
	<u>29,160</u>	<u>19,520</u>

15 Borrowings

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Obligation under finance leases wholly payable within five years	533	679
Current portion included under current liabilities	291	291
	<u>242</u>	<u>388</u>

16 Commitments*(a) Capital commitments*

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Contracted but not provided for	<u>215,000</u>	<u>—</u>

(b) Operating lease commitments

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

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
2006	2,443	1,637
2007	467	191
2008	6	—
	<u>2,916</u>	<u>1,828</u>

16 Commitments (Continued)*(b) Operating lease commitments (Continued)*

The future aggregate minimum lease rental income in respect of land and building under non-cancellable operating leases is receivable in the following years:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
2006	107	261

17 Contingent liabilities

The Company has provided guarantees in respect of finance lease obligations granted to subsidiary companies amounting to HK\$533,000 (2005: HK\$679,000).

18 Subsequent events

- (a) On 3 July 2006, the Company entered into a non-legally binding letter of intend for the acquisition of the entire equity interest in a company which holds 51% equity interest in a natural gas supply operation in Qingdao, the PRC, details of the proposed acquisition are set out in the announcement of the Company dated 4 July 2006.
- (b) On 14 July 2006, the Company allotted and issued 146,000,000 new shares of HK\$0.25 each at the issue price of HK\$0.45 per share for cash. Net proceeds from the placing will be applied as part of the consideration for the acquisition of the natural gas supply operations in the PRC (note d) and the balance as general working capital. All the new shares rank pari passu to the existing shares.
- (c) On 19 July 2006, the authorised share capital of the Company was increased from HK\$250,000,000, divided into 1,000,000,000 shares of HK\$0.25 each, to HK\$1,000,000,000, divided into 4,000,000,000 shares of HK\$0.25 each, by the creation of 3,000,000,000 new shares of HK\$0.25 each. All new shares rank pari passu to the existing shares.
- (d) On 7 August 2006, the Group completed the acquisition of the entire equity interest of Sanxia Gas in respect of the natural gas supply operations in Chongqing, the PRC, details of the acquisition are described in the circular of the Company dated 30 June 2006.