



INTERIM REPORT 2008



NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tong Nai Kan (*Chairman*)
Chow Sim Chu, Shirley
Tan Chuanrong

Non-Executive Director

Ko Ming Tung, Edward

Independent Non-Executive Directors

Chan Kin Sang
Lam Yat Fai
Liu Ngai Wing
Tang Tin Sek

AUDIT COMMITTEE

Tang Tin Sek (*Chairman*)
Chan Kin Sang
Lam Yat Fai
Liu Ngai Wing

REMUNERATION COMMITTEE

Lam Yat Fai (*Chairman*)
Liu Ngai Wing
Tang Tin Sek

CHIEF EXECUTIVE OFFICER

Wang Wenggang

COMPANY SECRETARY

Lee Kuen Chiu, Sherman

QUALIFIED ACCOUNTANT

Lee Kuen Chiu, Sherman

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

SOLICITORS

Angela Ho & Associates
Stephenson Harwood & Lo

AUDITORS

CCIF CPA Limited
20/F., Sunning Plaza,
10 Hysan Avenue,
Causeway Bay, Hong Kong

REGISTERED OFFICE

19th Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

SHARE REGISTRARS

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

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code : 91

COMPANY WEBSITE

www.newsmartgroup.com



The Board of Directors (the “Board” or “Directors”) of New Smart Energy Group Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Period”).

RESULTS

For the Period, the Group’s turnover was HK\$68,780,000 (2007: HK\$62,833,000), representing an increase of 9.5%. Such increase of turnover was mainly due to the contribution from the natural gas operating subsidiaries in Chongqing amounted to HK\$42,058,000 and was 61.1% of the Group’s turnover. The revenues generated by the sales of electronic components decreased by 11.0% from HK\$30,027,000 in 2007 to HK\$26,722,000 in 2008, representing 38.9% of the Group’s turnover. The gross profit decreased by 5.2% to HK\$18,023,000 from HK\$19,014,000. The loss attributable to shareholder of the Company for the year was HK\$10,012,000 (2007: HK\$152,287,000), representing a decrease of 93.4%.

The difference in the performance of the Group was mainly due to the substantial loss incurred by the accounting loss regarding the issuance of convertible bonds in last corresponding period. Excluding the accounting loss for the fair value of net changes in conversion price of the convertible bonds for the last corresponding period of HK\$145,723,000, the loss before income tax and after tax for the last corresponding period was HK\$13,025,000 and HK\$6,564,000 respectively. The loss before and after income tax for the Period was HK\$9,660,000, representing a decrease of 25.8%, and HK\$10,012,000, representing an increase of 52.5%, with the last corresponding period excluding the effect on the issuance of convertible bonds.

INTERIM DIVIDENDS

The Board does not recommend the payment of any dividend for the Period.

BUSINESS REVIEW

The Group is principally engaged in sale and distribution of piped natural gas in Mainland China and technology-related business.

Natural Gas Business

Sanxia Gas (BVI) Investment Limited (“Sanxia Gas”) indirectly owned 100% equity interest of Chongqing Yunyang Natural Gas Company Limited (“First Yunyang”), Yunyang Three Gorges Compressed Natural Gas Company Limited (“Second Yunyang”), Fengjie Three Gorges Wind Natural Gas Company Limited (“Fengjie Gas”) and Wushan Three Gorges Wind Natural Gas Company Limited (“Wushan Gas”). The principal activities of these subsidiaries are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengjie, Wushan of the Chongqing Province.

BUSINESS REVIEW (CONTINUED)**Natural Gas Business (Continued)**

For the Period, the turnover and profit of Sanxia Gas sub-group was HK\$42,058,000 (2007: HK\$32,806,000) and HK\$2,860,000 (2007: HK\$11,606,000). As at 30 June 2008, the Sanxia Gas sub-group had more than 58,000 customers with details as follows:

No. of customers	First Yunyang	Fengjie Gas	Wushan Gas	Total
As at 31 December 2007	29,738	15,745	8,777	54,260
As at 30 June 2008	31,177	17,813	9,740	58,730
New customers	1,439	2,068	963	4,470
% growth	4.8%	13.1%	11.0%	8.2%

For the Period, Second Yunyang, a natural gas filling station for motor vehicles with gas sales increased 14.6% from 2,597,000 cubic meters in 2007 to 2,976,000 cubic meters in 2008.

Technology-related Business

Strong Way International Limited (“SWIL”), the Group’s 60% equity interest subsidiary, is principally engaged in design and distribution of “SONIX” brand integrated circuits for toy manufacturing in Hong Kong and the South East Asia Region. During the Period, SWIL continuously enlarged its sales network in Mainland China through an established sales agent in Guangzhou which has already built up good business relationship with a number of household appliances manufacturers. The turnover from sales of electronic components amounted to HK\$26,722,000 for the Period under review with a decrease of 11.0% comparing to HK\$30,027,000 in the corresponding period in 2007. The segment results was profit of HK\$85,000 for 2008 (2007: loss of HK\$264,000).

FINANCIAL REVIEW

As at 30 June 2008, the Group had current assets of HK\$156,455,000 (2007: HK\$106,159,000) and current liabilities of HK\$59,031,000 (2007: HK\$65,510,000) and cash and bank balances of HK\$74,229,000 (2007: HK\$38,120,000).

The Group has successfully raised HK\$62,500,000 by placement of 250,000,000 new shares at subscription price of HK\$0.25 per share on 8 June 2008 for the possible investment in coal-bed methane business in future and for general working capital purpose.

PROSPECTS

The acquisition of Sanxia Gas allows the Group to diversify into a solid business with a new array of steady income and the first step for the Group to enter into energy-related business in Mainland China.

The Directors believe that investment in clean energy sector will benefit the Company. On 16 July 2008, the Company, through its wholly-owned subsidiary, entered into a share transfer agreement with Proud City Investments Limited for the acquisition of entire issued share capital of Merit First Investments Limited, which enables the Group to tap into the coalbed methane supply market, the clean energy sector, which is supported by the PRC government with reference to the Eleventh Five-Year Plan adopted by the National Development and Reform Commission of the PRC in 2006.

As a whole, the Group will actively identify opportunities to invest in the energy-related business, mainly in Mainland China, so as to bring in significant improved returns and contribute enhanced value to our shareholders.



SHARE OPTION SCHEME

Under the terms of the share option scheme (the “Scheme”) of the Company approved by the shareholders on 29 December 2004, 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.

During the Period, no share options are granted to the Directors and employees under the Scheme. Details of the share options outstanding as at 30 June 2008 which have been granted under the Scheme are as follows:

Categories of participant	Date of grant	Exercise price (HK\$)	Exercisable period	Number of share options					Closing price immediately before the date of grant (HK\$)
				As at 1 January 2008	Granted	Exercised	Lapsed	As at 30 June 2008	
Employees	27-Sep-05	0.2500	27 October 2005 to 26 September 2010	800,000	-	-	-	800,000	0.1090
Directors	8-Mar-06	0.2648	8 April 2006 to 7 March 2011	1,830,000	-	-	-	1,830,000	0.2440
Employees	1-Jun-06	0.2900	1 July 2006 to 31 May 2011	51,520,000	-	-	43,020,000	8,500,000	0.2850
Employees	1-Mar-07	0.2620	1 April 2007 to 29 February 2012	5,830,000	-	-	3,230,000	2,600,000	0.2550
Employees	19-Jul-07	0.4550	19 August 2007 to 18 July 2012	127,230,000	-	-	127,230,000	-	0.4650
				<u>187,210,000</u>	<u>-</u>	<u>-</u>	<u>173,480,000</u>	<u>13,730,000</u>	

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 of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

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

As at 30 June 2008, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) Long positions in shares of the Company:

Name of Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan (<i>Note</i>)	Corporate	180,000,000	8.37
Tan Chuanrong	Personal	142,500,000	6.63
Chow Sim Chu, Shirley	Personal	1,310,000	0.06
Tang Tin Sek	Personal	158,000	0.01

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

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

(B) Long positions in underlying shares of the Company – share options:

Name of Directors	Date of grant	Number of underlying shares comprised in the options	Exercise price per share (HK\$)	Exercisable period
Lam Yat Fai	8 March 2007	610,000	0.2648	8 April 2007 to 7 March 2011
Liu Ngai Wing	8 March 2007	610,000	0.2648	8 April 2007 to 7 March 2011
Tang Tin Sek	8 March 2007	610,000	0.2648	8 April 2007 to 7 March 2011

Save as disclosed above, as at 30 June 2008, none of the Directors and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2008, 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	Percentage
Tong Nai Kan (<i>Note</i>)	Beneficial	180,000,000	8.37
Time Prosper Holdings Limited ("Time Prosper")	Corporate	120,000,000	5.58
Gold Blue Group Limited ("Gold Blue")	Corporate	60,000,000	2.79
Guo Yanni	Beneficial	250,000,000	11.63
Shine Channel Corporation Limited ("Shine Channel")	Corporate	250,000,000	11.63
Tan Chuanrong	Beneficial	142,500,000	6.63

Notes:

1. Mr. Tong Nai Kan is the beneficial owner of the entire issued share capital of Time Prosper and Gold Blue. In accordance with the SFO, the interests of Time Prosper and Gold Blue are deemed to be, and have therefore been included in the interests of Mr. Tong Nai Kan.
2. Ms. Guo Yanni is the beneficial owner of the entire issued share capital of Shine Channel. In accordance with the SFO, the interests of Shine Channel is deemed to be, and has therefore been included in the interest of Ms. Guo Yanni.

Save as disclosed above, as at 30 June 2008, no persons, other than the Directors and Chief Executive of the Company whose interests are set out in the section "Directors' and Chief Executives' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, had notified the Company of any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

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

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

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

Mr. Tong Nai Kan assumed the role of the chairman of the Company and Mr. Tan Chuanrong, who primarily expertise in the transfer of coalbed methane via pipelines, was appointed as the CEO. The roles of the Chairman and the CEO are separate to reinforce their respective independence and accountability. The Chairman of the Company is primarily responsible for the leadership of the Board, while the CEO are responsible for the day-to-day management of the group business. Their responsibilities are clearly segregated. Mr. Tan was also responsible to oversee the coalbed methane pipeline project under the sale and purchase agreement dated 22 November 2007, of which the Company will acquire 56% interest in Shanxi Tongyu Coalbed Methane Transportation Limited (the “Acquisition”).

Following the termination of the Acquisition on 26 February 2008, the Company’s main focus might not be on the transfer of coalbed methane via pipelines, accordingly, Mr. Tan’s primary expertise in the transfer of coalbed methane via pipelines is not as appropriate for the discharge of his duties as CEO. Mr. Tan resigned as CEO with effect from 27 February 2008 and Mr. Tong Nai Kai, the Chairman, was appointed as CEO in his place.

The Company has deviated from the code provision A.2.1 by having the chairman and CEO to be the same person. 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 and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

During the Period under review, the chairman ensured that all Directors were properly briefed on issues arising at Board meetings and received adequate, complete and reliable information.

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 of the Company (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 of the Company, every Director are subject to retirement by rotation at least once every three years and any new Directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election by shareholders at the next following annual general meeting after their appointment.

According to the Company's Articles, the Chairman of the Board and the Managing Director of the Company were not subject to retirement by rotation, which thus 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.

HUMAN RESOURCES

As at 30 June 2008, the Group had 220 employees, of which 38 were in Hong Kong and 182 were in Mainland China. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. Staff benefits include medical scheme, share option scheme, Mandatory Provident Fund scheme for Hong Kong employees and the state-managed employee pension scheme for employees in Mainland China.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

REVIEW OF INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises all the independent non-executive Directors including Dr. Tang Tin Sek, Mr. Liu Ngai Wing, Mr. Lam Yat Fai and Mr. Chan Kin Sang.

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

ACKNOWLEDGEMENT

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

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 23 September 2008



CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF NEW SMART ENERGY GROUP LIMITED *(Incorporated in Hong Kong with limited liability)*

Introduction

We have reviewed the interim financial statements set out on pages 13 to 30, which comprise the consolidated balance sheet of New Smart Energy Group Limited (the "Company") as of 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and fair presentation of this interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements does not give a true and fair view of the financial position of the entity as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 23 September 2008

Leung Chun Wa

Practising Certificate Number P04963

NEW SMART ENERGY GROUP LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Unaudited Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000
Turnover	5	68,780	62,833
Cost of sales		(50,757)	(43,819)
Gross profit		18,023	19,014
Other income		850	520
Administrative expenses		(27,363)	(25,368)
Loss on extinguishment of promissory notes		–	(172,369)
Fair value change on embedded financial derivative		–	26,029
Operating loss	6	(8,490)	(152,174)
Finance costs	7	(1,170)	(6,584)
Loss before income tax		(9,660)	(158,758)
Income tax	8	(352)	6,471
Loss for the period		<u>(10,012)</u>	<u>(152,287)</u>
Attributable to:			
Equity holders of the Company		(10,012)	(152,287)
Minority interest		–	–
		<u>(10,012)</u>	<u>(152,287)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	9		
Basic		(0.52)	(13.05)
Diluted		N/A	N/A

NEW SMART ENERGY GROUP LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	<i>Note</i>	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	141,651	136,283
Leasehold land and land use rights	10	2,636	2,572
Intangible assets		175,754	165,418
Available-for-sale financial assets		2,771	2,771
		<u>322,812</u>	<u>307,044</u>
Current assets			
Inventories		3,319	2,241
Debtors and prepayments	11	65,612	50,404
Amounts due from related parties		13,295	12,003
Cash and bank balances		74,229	41,511
		<u>156,455</u>	<u>106,159</u>
Total assets		<u>479,267</u>	<u>413,203</u>
EQUITY			
Share capital	12	537,609	475,109
Reserves		(141,396)	(149,989)
Equity holders		396,213	325,120
Minority interests		-	-
Total equity		<u>396,213</u>	<u>325,120</u>

NEW SMART ENERGY GROUP LIMITED

CONSOLIDATED BALANCE SHEET (Continued)

AS AT 30 JUNE 2008

	<i>Note</i>	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
LIABILITIES			
Non-current liability			
Borrowings	14	18,163	17,067
Deferred taxation liabilities		5,860	5,506
		24,023	22,573
Current liabilities			
Borrowings	14	11,696	20,688
Creditors and accruals	15	45,048	42,533
Amounts due to related parties		1,654	1,740
Taxation		633	549
		59,031	65,510
Total liabilities		83,054	88,083
Total equity and liabilities		479,267	413,203
Net current assets		97,424	40,649
Total assets less current liabilities		420,236	347,693

NEW SMART ENERGY GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Attributable to the equity holders of the Company				Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000		
At 31 December 2007	475,109	266,253	(416,242)	325,120	–	325,120
Changes in exchange rates	–	18,605	–	18,605	–	18,605
Issue of placing shares	62,500	–	–	62,500	–	62,500
Share options cancelled	–	(22,774)	22,774	–	–	–
Loss for the period	–	–	(10,012)	(10,012)	–	(10,012)
At 30 June 2008	<u>537,609</u>	<u>262,084</u>	<u>(403,480)</u>	<u>396,213</u>	<u>–</u>	<u>396,213</u>
At 31 December 2006	264,729	84,431	(212,656)	136,504	23	136,527
Changes in exchange rates	–	6,661	–	6,661	–	6,661
Issues of new shares, net of issue expenses	50,000	8,820	–	58,820	–	58,820
Conversion of convertible bonds to shares	50,000	48,966	–	98,966	–	98,966
Share options granted at fair value	–	1,106	–	1,106	–	1,106
Issue of shares upon exercise of share options	5,275	163	–	5,438	–	5,438
Loss for the period	–	–	(152,287)	(152,287)	–	(152,287)
At 30 June 2007	<u>370,004</u>	<u>150,147</u>	<u>(364,943)</u>	<u>155,208</u>	<u>23</u>	<u>155,231</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Net cash flows from operating activities	(20,026)	(38,304)
Net cash used in investing activities	(1,505)	(2,251)
Net cash from financing activities	54,828	57,532
Increase in cash and bank balances	33,297	16,977
Cash and bank balances at beginning of period	41,511	20,339
Changes in exchange rates	(579)	804
Cash and bank balances at end of period	74,229	38,120



NOTES

1 General information

The principal activities of the Company and its subsidiaries (together the “Group”) are the selling and distribution of natural gas for residential, commercial and industrial consumption 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 of Hong Kong Limited. The address of its registered office is Floor 19th, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

This interim financial information has been approved by the Board of Directors on 23 September 2008.

2 Basis of preparation

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the financial statements for the year ended 31 December 2007.

The following new interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are currently not relevant to the Group.

HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 12	Service concession arrangements
HK(IFRIC) – Int 14	HKAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The following new standards, amendments and interpretations to existing standards are not yet effective for the financial year beginning 1 January 2008 and have not been early adopted by the Group in the interim financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Revised)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business combination ²
HKFRS 8	Operating segments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

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 2007.

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believe to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are consistent with those used in the annual financial statements for the year ended 31 December 2007.



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, debtors and prepayments and amounts due from related parties. Segment liabilities comprise of borrowings, creditors and accruals and amounts due to related parties. 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

For the six months ended 30 June 2008

	Unaudited			Group HK\$'000
	Natural gas HK\$'000	Technology HK\$'000	Corporate and others HK\$'000	
Turnover	42,058	26,722	-	68,780
Segment results	2,852	85	(11,427)	(8,490)
Finance costs				(1,170)
Loss before income tax				(9,660)
Income tax				(352)
Loss for the period				(10,012)
Capital expenditure	2,386	-	17	2,403
Depreciation	3,973	-	680	4,653
Amortisation	375	-	-	375
Bad debt written off	-	-	-	-
As at 30 June 2008				
Segment assets	354,507	11,845	38,686	405,038
Unallocated assets				74,229
Total assets				479,267
Segment liabilities	14,105	19,965	12,632	46,702
Unallocated liabilities				36,352
Total liabilities				83,054

5 Segment information (Continued)

(a) Business segments (Continued)

For the six months ended 30 June 2007

	Unaudited			Group HK\$'000
	Natural gas HK\$'000	Technology HK\$'000	Corporate and others HK\$'000	
Turnover	32,806	30,027	–	62,833
Segment results	11,606	(264)	(163,516)	(152,174)
Finance costs				(6,584)
Loss before income tax				(158,758)
Income tax				6,471
Loss for the period				(152,287)
Capital expenditure	1,732	–	528	2,260
Depreciation	3,411	–	593	4,004
Amortisation	344	–	–	344
Bad debt written off	–	–	172	172
As at 30 June 2007				
Segment assets	326,185	19,520	37,953	383,658
Unallocated assets				38,120
Total assets				421,778
Segment liabilities	16,207	25,997	4,666	46,870
Unallocated liabilities				219,677
Total liabilities				266,547

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5 Segment information (Continued)

(b) Geographical segments

	Unaudited Turnover		Unaudited Operating results	
	Six months ended 30 June		Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Hong Kong	26,722	30,027	(11,359)	(162,320)
People's Republic of China	42,058	32,806	2,869	10,146
	<u>68,780</u>	<u>62,833</u>	<u>(8,490)</u>	<u>(152,174)</u>
			Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Total assets				
Hong Kong			115,263	60,146
People's Republic of China			364,004	353,057
			<u>479,267</u>	<u>413,203</u>



6 Operating loss

	Unaudited Six months ended 30 June	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Operating loss is arrived at after charging:		
Staff costs (including Directors' emoluments)		
– Salaries and other emoluments	12,245	12,665
– Share options granted	–	1,106
– Contributions to retirement scheme	831	153
	13,076	13,924
Depreciation		
– owned assets	4,653	3,862
– leased assets	–	142
	4,653	4,004
Amortisation		
– Leasehold land and land use rights	99	90
– Intangible assets	276	254
	375	344
Operating lease rental expenses for land and buildings	2,458	2,163
Bad debt written off	–	172
Loss on disposal of property, plant and equipment	–	77
	2,458	2,163



7 Finance costs

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses		
Promissory notes not wholly repayable within five years	–	4,839
Convertible bonds not wholly repayable within five years	–	130
Bank loans and overdrafts	1,170	1,601
Finance lease obligations wholly repayable within five years	–	14
	<u>1,170</u>	<u>6,584</u>

8 Income tax

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	–	–
PRC enterprise income tax	(352)	–
Deferred taxation		
People's Republic of China	–	6,471
	<u>(352)</u>	<u>6,471</u>

Hong Kong profits tax has not been provided as the Group sustained a loss for Hong Kong Profits Tax purposes for the periods (Six months ended 30 June 2007: nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in which the Group operates.

The subsidiaries in the People's Republic of China (the "PRC") are subject to an income tax rate of 25% (2007: 15%), being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in PRC are exempted from enterprise income tax for two years commencing from their first profit-making year of operation in 2007 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

Pursuant to the Corporate Income Tax Law of the PRC approved by the National People's Congress on 16 March 2007, the corporate income tax rate for foreign invested enterprises will be increased from 15% to 25% with effect from 1 January 2008.

The reversal of temporary difference during the period represents the approval of extending tax benefits to prior year income by the Chongqing Municipal Tax Bureau.

9 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2008	2007
Loss attributable to equity holders (<i>HK\$'000</i>)	<u>(10,012)</u>	<u>(152,287)</u>
Issued ordinary shares at 1 January	1,900,434,391	1,058,914,391
Effect of convertible bond converted	–	5,711,953
Effect of share option exercised	–	9,742,879
Effect of placing subscription	<u>20,718,232</u>	<u>92,533,645</u>
Weighted average number of ordinary shares at 31 December	<u>1,921,152,623</u>	<u>1,166,902,868</u>
Basic loss per share (<i>HK cents</i>)	<u>(0.52)</u>	<u>(13.05)</u>

(b) Diluted

Diluted loss per share for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil) has not been presented as the effect of the potential ordinary shares under the outstanding granted share options would be anti-dilutive.

10 Capital expenditure and leasehold land and land use rights

	Unaudited	
	Property, plant and equipment <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>
Net book amount as at 1 January 2008	136,283	2,572
Changes in exchange rates	8,516	163
Additions	2,403	–
Disposal	(898)	–
Depreciation	<u>(4,653)</u>	<u>(99)</u>
Net book amount as at 30 June 2008	<u>141,651</u>	<u>2,636</u>

11 Debtors and prepayments

	Unaudited 30 June 2008 <i>HK\$'000</i>	Audited 31 December 2007 <i>HK\$'000</i>
Trade debtors	13,089	12,462
Provision for impairment	(133)	(133)
	12,956	12,329
Other debtors	1,709	1,017
Due from a third party financial consultant		
Deposit	30,000	30,000
Interest on deposit	545	321
Deposits and prepayments	20,402	6,737
	65,612	50,404

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

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

	Unaudited 30 June 2008 <i>HK\$'000</i>	Audited 31 December 2007 <i>HK\$'000</i>
Below 30 days	6,364	6,109
30 to 90 days	5,903	6,003
91 to 180 days	569	213
Over 180 days	120	4
	12,956	12,329

12 Share capital

	Number of Shares	HK\$'000
<i>Authorised:</i>		
At 31 December 2006, ordinary shares of HK\$0.25 each	4,000,000,000	1,000,000
Increase during the year (<i>note a</i>)	6,000,000,000	1,500,000
	<hr/>	<hr/>
At 31 December 2007 and 30 June 2008, ordinary shares of HK\$0.25 each	<u>10,000,000,000</u>	<u>2,500,000</u>
<i>Issued and fully paid:</i>		
At 31 December 2006, ordinary shares of HK\$0.25 each	1,058,914,391	264,729
Issue of new shares for cash (<i>note b</i>)	200,000,000	50,000
Issue of new shares upon conversion of convertible bonds (<i>note c</i>)	613,420,000	153,355
Share options exercised	28,100,000	7,025
	<hr/>	<hr/>
At 31 December 2007, ordinary shares of HK\$0.25 each	1,900,434,391	475,109
Issue of shares by placement (<i>note d</i>)	250,000,000	62,500
	<hr/>	<hr/>
At 30 June 2008, ordinary shares of HK\$0.25 each	<u>2,150,434,391</u>	<u>537,609</u>

Notes:

- a By an ordinary resolution passed by the shareholders on 12 September 2007, the authorized share capital of the Company was increased from HK\$1,000,000,000 to HK\$2,500,000,000 by creation of 6,000,000,000 new shares of HK\$0.25 each.
- b On 11 April 2007, the Company allotted and issued 200,000,000 new shares of HK\$0.25 each at the issue price of HK\$0.3001 per share for cash.
- c During the year, share options to subscribe for 613,420,000 shares were exercised at a conversion price of HK\$0.25 per share.
- d On 16 June 2008, the Company issued 250,000,000 shares with par value of HK\$0.25 each, at a price of HK\$0.25 per share by way of placement to independent third party.

All the new shares rank pari passu to the existing shares.

13 Share option scheme

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

Movements in the numbers of share options during the period/year are as follows:

	Unaudited Six months ended 30 June 2008	Audited Year ended 31 December 2007
At beginning of period/year	187,210,000	93,630,000
Granted (<i>note a</i>)	–	137,860,000
Cancelled	(173,480,000)	(16,180,000)
Exercised	–	(28,100,000)
At end of period/year	<u>13,730,000</u>	<u>187,210,000</u>

Note:

- a On 1 March 2007 and 19 July 2007, 10,630,000 and 127,230,000 share options were granted to employees at the exercise price of HK\$0.262 and HK\$0.455 per share. These options can be exercised at any time up to five years from the date of grant of options. At the date before the options were granted, the market value per share was HK\$0.255 and HK\$0.445 respectively.

14 Borrowings

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Secured bank loans wholly repayable within five years <i>(note)</i>	28,947	36,801
Short term loans, unsecured	912	857
Finance lease obligations wholly repayable within five years	-	97
	29,859	37,755
Current portion included in current liabilities		
Secured bank loans wholly repayable within five years <i>(note)</i>	10,784	19,734
Short term loans, unsecured	912	857
Finance lease obligations wholly repayable within five years	-	97
	11,696	20,688
Non-current portion	18,163	17,067

Note: Bank loans amounting to HK\$28,947,000 (31 December 2007: HK\$33,067,000) is secured by the right to collect revenue on sales of natural gas of the gas operating subsidiaries.

15 Creditors and accruals

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Trade creditors	25,974	23,206
Other creditors	14,368	15,677
Accrued operating expenses	4,706	3,650
	45,048	42,533

15 Creditors and accruals *(Continued)*

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

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Below 30 days	9,953	7,013
30 to 90 days	6,812	7,538
91 to 180 days	5,173	7,152
Over 180 days	4,036	1,503
	<u>25,974</u>	<u>23,206</u>

16 Operating lease commitments

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

	Unaudited 30 June 2008 HK\$'000	Audited 31 December 2007 HK\$'000
Within one year	930	3,615
In the second to fifth years inclusive	752	1,977
	<u>1,682</u>	<u>5,592</u>

17 Contingent liabilities

The Company has not provided guarantees in respect of finance lease obligations granted to a subsidiary company (31 December 2007: HK\$97,000).

18 Event after balance sheet date

On 16 July 2008, the Group entered into an agreement to acquire the entire issued share capital of Merit First Investments Limited and its subsidiaries ("Merit First Group") at a consideration of HK\$2,500,000,000. Principal asset of Merit First Group is the rights to exploit the coalbed methane resources in Sunan area, Anhui province, PRC for a period of thirty years.