NEW SMART ENERGY

Annual Report 2008

New Smart Group

NEW SMART ENERGY GROUP LIMITED

Stock code : 91

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tong Nai Kan *(Chairman)*
Chow Sim Chu, Shirley
Wang Wengang
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

AUDITOR

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

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of New Smart Energy Group Limited (the "Company") will be held at 19th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong on Wednesday, 10 June 2009 at 4:00 p.m. for the following purposes:-

1. To receive and consider the audited financial statements and the reports of the directors and auditor for the year ended 31 December 2008.

2. To re-elect the retiring directors.

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 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 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 of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power 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 of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) the exercise of options granted under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company 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 an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company 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 of the Company 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 of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company, 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 purchased 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 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 3(A) and 3(B) as set out in this notice convening the Meeting of which this resolution forms part, the general mandate granted to the directors of the Company pursuant to resolution 3(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 purchased by the Company under the authority granted pursuant to resolution 3(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 of Hong Kong Limited 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 of the Company 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
Sherman K C Lee
Company Secretary

Hong Kong, 29 April 2009

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The register of members of the Company will be closed from Monday, 8 June 2009 to Wednesday, 10 June 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the Meeting, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 5 June 2009.

2. 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.

3. 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 the abovesaid address not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting thereof.

4. With reference to resolution 2 set out in this notice, Mr. Chan Kin Sang, Mr. Tang Tin Sek and Mr. Tan Chuanrong are due to retire by rotation at the Meeting. Mr. Chan being eligible, will offer himself for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association, but Mr. Tang and Mr. Tan will not offer themselves for re-election. Also, Mr. Wang Wengang 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. Neither Mr. Chan nor Mr. Wang has entered into any service contract with the Company. The details of Mr. Chan and Mr. Wang are set out in a circular which will be sent to members together with the Company's 2008 Annual Report.

5. 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 2008 Annual Report.

The Board of Directors (the "Board" or "Directors") of New Smart Energy Group Limited (the "Company") is pleased to present the Group's annual report for the year ended 31 December 2008.

RESULTS

The Group's turnover for the year under review was HK$139,439,000 (2007: HK$135,113,000), representing an increase of 3.20%. Such increase of turnover was mainly due to the increase contribution from the natural gas operating subsidiaries in Chongqing amounted to HK$90,117,000 (2007: HK$75,655,000) and was 64.63% of the Group's 2008 turnover. The revenues generated by the sales of electronic components decreased by 17.53% from HK$59,458,000 in 2007 to HK$49,033,000 in 2008, representing 35.16% of the Group's turnover. The Group's gross profit decreased by 32.70% to HK$38,294,000 from HK$56,900,000 in 2007.

The Group's profit for the year was HK$310,439,000 (2007: loss of HK$201,570,000). Substantial part of the Group's performance for the year was the accounting profit and loss, such as the discount on the acquisition of the coalbed methane business amounted to HK$545,470,000, the impairment loss for the goodwill arising from the acquisition of Chongqing project in 2006 amounted to HK$167,279,000, the fair value loss on convertible bonds' embedded derivates amounted to HK$21,983,000. The aggregate net result of the abovementioned accounting profit for 2008 was HK$356,208,000,

For comparison purpose, the loss for 2007 and 2008, if excluding those accounting loss, was HK$46,149,000 and HK$45,769,000 respectively, an increase in loss of 0.82% which was due to the lower contribution from the Chongqing natural gas business.

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

The profit after tax before interest expense for the natural gas business in 2008 was HK$6,777,000 (2007: HK$26,055,000) and the loss after tax for the sales of electronic components was HK$1,071,000 for 2008 (loss of HK$1,679,000 in 2007). The administrative cost decreased by 23.76% from HK$87,689,000 in 2007 to HK$66,850,000 in 2008. The difference arised mainly because of the staff cost of HK$23,880,000 in respect of granting of share options in 2007, while there was no share options granted in 2008.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008.

BUSINESS REVIEW

The Group is principally engaged in selling and distribution of natural gas for residential, commercial and industrial consumption in Mainland China and technology-related business.

Coalbed Methane ("CBM") Business

On 16 July 2008, the Company, through its wholly-owned subsidiary, entered into a share transfer agreement with the vendors for the acquisition of entire issued share capital of Merit First Investments Limited ("Merit First"), at a total consideration of HK$2,500,000,000. Canada Can-Elite Energy Limited ("Can-Elite"), an indirectly wholly-owned subsidiary of Merit First, is a company incorporated in Canada. The principal business activities of Can-Elite are, include but not limited to, coalbed methane exploration, development and production. Pursuant to a Production Sharing Contract for Exploitation of Coalbed Methane Resources in Sunan Area in Anhui province in the PRC (the "Production Sharing Contract") entered into between China United Coalbed Methane Corporation Limited ("China United") and Can-Elite, Can-Elite can exploit the coalbed methane resources in a total exploration area of approximately 356.80 square kilometers, which was amended to 567.843 square kilometers, located in Sunan area, Anhui province in the PRC, for a term of 30 years from the date of commencement of the production of coalbed methane from any coalbed methane field proposed and announced by joint management committee. At the acquisition date on 26 November 2008, the CBM business has been commenced with 7 gas wells operating in the contract area.

Pursuant to the Production Sharing Contract, the profit sharing ratio between China United and Can-Elite is approximately 30:70. It is expected that the products of coalbed methane and liquid hydrocarbons will be sold within the Anhui Province of the PRC enterprises for industrial use and to residents for household use including cooking.

Natural Gas Business

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, and Wushan of the Chongqing Province.

For the year 2008, the turnover and profit of Sanxia Gas sub-group was HK$90,117,000 (2007: HK$75,655,000) and HK$6,777,000 (2007: HK$26,055,000). The revenue of Sanxia Gas sub-group mainly comprised of gas connection fee of HK$43,046,000(2007: HK$41,409,000) and sales of natural gas supply charges of HK$47,042,000 (2007: HK$34,175,000). The decrease in the profit was mainly due to the substantial maintenance cost for the year and the decline in oil price and market conditions. In view of the unfavorable of the market conditions facing by the Sanxia Gas, the decrease in the rate of growth of connection fee, the Directors has decided to take a prudent approach to make an impairment loss of HK$167,279,000 of the goodwill with the Sanxia Gas.

As at 31 December 2008, the Sanxia Gas sub-group had more than 64,900 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 31 December 2008	34,316	19,534	11,072	64,922
% growth	15.39%	24.06%	26.15%	19.65%

Second Yunyang, a natural gas filling station for motor vehicles with gas sales increased 15.48% from 5,522,000 cubic meters in 2007 to 6,377,000 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 year, 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$49,033,000 for the year 2008 with a decrease of 17.53% comparing to HK$59,458,000 in 2007. The segment results was loss of HK$1,071,000 for 2008 (2007: loss of HK$1,679,000), a decrease of 36.21%.

FINANCIAL REVIEW

As at 31 December 2008, the Group had current assets of HK$71,256,000 (2007: HK$106,343,000) and current liabilities of HK$244,028,000 (2007: HK$65,510,000) and cash and bank balances of HK$38,857,000 (2007: HK$41,511,000).

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 coalbed methane business in future and for general working capital purpose.

By an ordinary resolution passed by the shareholders on 19 November 2008, the authorised share capital of the Company was increased from HK$2,500,000,000 to HK$5,000,000,000 by the creation of 10,000,000,000 new shares of HK$0.25 each.

On 26 November 2008, the Company issued 800,000,000 consideration shares at $0.25 per share, HK$200,000,000 promissory notes and HK$2,000,000,000 convertible notes at a conversion price of HK$0.25 to acquire the Merit First.

CHAIRMAN'S STATEMENT

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 acquisition 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. The Directors believe that investment in clean energy sector will benefit the Company.

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.

HUMAN RESOURCES

As at 31 December 2008, the Group had 220 employees, of which 34 were in Hong Kong and 186 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 schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

On behalf of the Board

Tong Nai Kan
Chairman

Hong Kong, 24 April 2009

EXECUTIVE DIRECTORS

TONG Nai Kan, aged 50, was appointed as a 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 acted as the Managing Director of the Company from March 1999 to November 2007 and from February 2008 to August 2008. 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 previously the chairman and managing director of China Mining Resources Group Limited (Formerly named as "INNOMAXX Biotechnology Group Limited") ("China Mining"), a company listed in the Stock Exchange of Hong Kong Limited. China Mining is formerly an associated company of the Company. 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.

CHOW Sim Chu, Shirley, aged 36, joined the Company in May 1999 and was appointed as an Executive Director of the Company in July 2000. Ms. Chow was formerly a senior executive of a local property group and is well-experienced in marketing and administration of property development projects in Hong Kong. She holds a Bachelor Degree in Business from RMIT University, Australia. Ms. Chow is the sister-in-law of Mr. Tong Nai Kan, the Chairman of the Company.

WANG Wengang, aged 39, was appointed as an Executive Director of the Company in December 2008. Mr. Wang is currently the Chief Executive Officer of the Company. He has extensive experience in financial management and project investment. Mr. Wang holds a Bachelor Degree in Laws in Nankai University in China and a Master Degree in Economics in Research Institute for Fiscal Science, Ministry of Finance, P.R.C..

TAN Chuanrong, aged 57, was appointed as an Executive Director of the Company in January 2007. Mr. Tan is currently the chairman of Chongqing Three Gorges Gas (Group) Company Limited. He holds a university degree and has wide experience in natural gas business in the Mainland China. Mr. Tan is also a committee member of the Chongqing Political Consultative Conference in the People's Republic of China (the "PRC") (中國重慶市政協委員), the vice chairman of the China Enterprise Directors Association of Chongqing (中國重慶市企業家聯合會副會長), director of China Society for Promotion of the Guangcai Program (中國光彩事業促進會理事), a member of the China Gas Association (中國城市燃氣協會會員) and a member of Chinese Petroleum Society (中國石油學會會員). Mr. Tan is currently the director of Sanxia Gas (BVI) Investment Limited, a wholly owned subsidiaries of the Company.

NON-EXECUTIVE DIRECTOR

KO Ming Tung, Edward, aged 48, was appointed as a Non-executive Director of the Company in March 2008. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. He is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 18 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Other than the directorship in the Company, currently, Mr. Ko is an independent non-executive director of Sinofert Holdings Limited, Kai Yuan Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Ko was an independent non-executive director of China Pipe Group Limited whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited and was an independent non-executive director of Thiz Technology Group Limited whose shares are listed on the GEM Board of the Stock Exchange of Hong Kong Limited. Mr. Ko was an independent non-executive director and non-executive director of the Company before.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Kin Sang, aged 57, was appointed as an Independent Non-executive Director of the Company in July 2006. Mr. Chan is currently the sole proprietor of Messrs. Peter K.S. Chan & Co., Solicitors and Notaries. He has been a practising solicitor in Hong Kong since 1982. Mr. Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979. He was admitted as a Notary Public in 1997 and as a China-appointed Attesting Officer in 2000. He is currently a Fellow of the Hong Kong Institute of Directors. Mr. Chan is currently an independent non-executive director of three Singapore listed companies, namely People's Food Holdings Limited, Sunray Holdings Limited, Luxking Group Holdings Limited and three other Hong Kong listed companies, namely Dynamic Energy Holdings Limited, China Precious Metal Resources Holdings Co. Ltd. (formerly known as China Force Oil & Grains Industrial Holdings Co., Limited), Goldmond Holdings Limited (formerly known as Golding Soft Limited). He is also a non-executive director of Pan Hong Property Group Limited also a Singapore listed company. Mr. Chan was an independent non-executive director of Wai Chun Group Holdings Limited (formerly known as Plus Holdings Limited).

LAM Yat Fai, aged 43, was appointed as an Independent Non-executive Director of the Company in August 2005. Mr. Lam is a Certified Public Accountant (Practising). He worked with Kwan Wong Tan & Fong and Deloitte Touche Tohmatsu for over 10 years and has over 19 years of experience in auditing, taxation, corporate finance and accounting. He is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lam is currently an independent non-executive director of Oriental Press Group Limited, G-Prop (Holdings) Limited and Yunnan Enterprises Holdings Limited, all being listed companies in Hong Kong.

LIU Ngai Wing, aged 58, was appointed as an Independent Non-executive Director of the Company in July 2005. Mr. Liu holds a PhD Degree in Hotel and Tourism Management from the Hong Kong Polytechnic University, a Master of Science degree in Global Business from the Chinese University of Hong Kong, a Master of Science Degree in Hotel and Tourism Management from the Hong Kong Polytechnic University and a Master Degree in Business Administration from the Open University of Hong Kong. He is also an Associate Member of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators, and a Fellow of the Association of Chartered Certified Accountants. Mr. Liu is currently an independent non-executive director of Daiwa Associate Holdings Limited, he was previously an executive director of eSun Holdings Limited, an independent non-executive director of Climax International Company Limited, Orient Industries Holdings Limited and 3D-GOLD Jewellery Holdings Limited (formerly know as Hang Fung Gold Technology Limited), all being listed companies in Hong Kong.

TANG Tin Sek, aged 50, was appointed as an Independent Non-executive Director of the Company in December 1999. Dr. Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He has over 28 years of experience in corporate finance, business advisory, financial management and auditing. He is also a member of The Chinese Institute of Certified Public Accountants, The Institute of Chartered Accountants in Australia and Chartered Association of Certified Accountants in the United Kingdom. He obtained a Bachelor of Science degree from the University of Hong Kong, a Master of Business Administration degree from the University of Sydney, Australia and a Doctorate in Accountancy from the Hong Kong Polytechnic University. Dr. Tang is currently an independent non-executive director of CEC International Holdings Limited, Sinofert Holdings Limited, Wai Chun Group Holdings Limited, Interchina Holdings Company Limited, all being listed companies in Hong Kong. He was previously an independent non-executive director of Huscoke Resources Holdings Limited (formerly known as Frankie Dominion International Limited).

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 together with the audited financial statements for the year ended 31 December 2008 (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 had 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 and A.4.2, details of which will be explained below.

In order to protect and enhance the benefits of 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 TRANSACTION

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 of all 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 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 2007 and the six months ended 30 June 2008 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 three executive Directors, one non-executive Director and four independent non-executive Directors ("INEDs"):

Executive Directors:
Mr. Tong Nai Kan *(Chairman)*
Ms. Chow Sim Chu, Shirley
Mr. Tan Chuanrong
Mr. Wang Wengang *(Chief Executive Officer)*

Non-executive Director:
Mr. Ko Ming Tung, Edward

Independent non-executive Directors:
Mr. Chan Kin Sang
Mr. Lam Yat Fai
Mr. Liu Ngai Wing
Dr. Tang Tin Sek

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.

Four INEDs, who represent half of the Board, include all with appropriate professional qualifications and accounting 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.

Ms. Chow Sim Chu, Shirley is the sister-in-law of Mr. Tong Nai Kan. Except the beforementioned, there is no other financial, business, family or other material/relevant relationships between the Directors and the Company.

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.

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.

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.

Number of Meetings and Directors' Attendance

The Board held a total of nine Board meetings during the Year under review. 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	9/9
Ms. Chow Sim Chu, Shirley	9/9
Mr. Tan Chuanrong	4/9
Mr. Wang Wengang *(Note 1)*	0/1
Mr. Ko Ming Tung, Edward *(Note 2)*	3/7
Mr. Chan Kin Sang	9/9
Mr. Lam Yat Fai	9/9
Mr. Liu Ngai Wing	6/9
Dr. Tang Tin Sek	9/9
Mr. Chen Jiqing *(Note 3)*	0/2

Notes:

1. Mr. Wang Wengang appointed as Executive Director on 15 December 2008.

2. Mr. Ko Ming Tung, Edward appointed as Non-executive Director on 5 March 2008.

3. Mr. Chen Jiqing resigned as an Executive Director 26 March 2008.

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.

During the Year under review, 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 before/after the Board meeting.

In the said Board Meetings, sufficient fourteen-day 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.

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.

As at 1 January 2008, Mr. Tong Nai Kan assumed the role of the chairman of the Company, while Mr. Tan Chuanrong, who primarily expertise in the transfer of coalbed methane via pipelines, assumed the role of CEO. Following the shift of the Company's main focus, 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, was appointed as CEO in additional to his role of the chairman until Mr. Wang Wengang was appointed as CEO on 7 August 2008.

Hence, the Company has deviated from the code provision A.2.1 by having the chairman and CEO to be the same person from 27 February 2008 to 7 August 2008.

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.

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 member of each Board committee is set out below:

Remuneration Committee
Mr. Lam Yat Fai *(Chairman)*
Mr. Liu Ngai Wing
Dr. Tang Tin Sek

Nomination Committee
Mr. Liu Ngai Wing *(Chairman)*
Mr. Lam Yat Fai
Dr. Tang Tin Sek

Audit Committee
Dr. Tang Tin Sek *(Chairman)*
Mr. Chan Kin Sang
Mr. Lam Yat Fai
Mr. Liu Ngai Wing

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 total of three meetings during the Year under review. The attendance record is set out below:

Name of Directors	**Attendance/Number of Remuneration Committee Meetings**
Mr. Lam Yat Fai	3/3
Mr. Liu Ngai Wing	3/3
Dr. Tang Tin Sek	3/3

The minutes of Remuneration Committee meeting 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 before/after the Remuneration Committee meeting.

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. Tan Chuanrong and Mr. Chen Jiqing as executive Directors during the Year, the Nomination Committee would take into account their qualification, in particular any qualification as required in the Listing Rules, ability, working experience, leadership and professional ethics. Nomination Committee would subsequently recommend such nomination of Mr. Tan and Mr. Chen as executive Directors to the Board for approval for appointment.

The Nomination Committee held a total of two meetings during the Year under review. The attendance record is set out below:

Name of Directors	Attendance/Number of Nomination Committee Meetings
Mr. Liu Ngai Wing	2/2
Mr. Lam Yat Fai	2/2
Dr. Tang Tin Sek	2/2

The minutes of Nomination Committee meeting 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 before/after the Nomination Committee meeting.

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 polices 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 under review, 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
Dr. Tang Tin Sek	2/2
Mr. Chan Kin Sang	2/2
Mr. Lam Yat Fai	2/2
Mr. Liu Ngai Wing	2/2

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 before/after the Audit Committee meetings.

The annual results of the Group for the year ended 31 December 2008 have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

During the Year, the fees paid to the auditor of the Company, Messrs. CCIF CPA Limited was HK$1,200,000 for the audit service and HK$450,000 for the non-audit services including interim review.

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems.

The Board has conducted a review of the Company's core business internal control systems for the year ended 31 December 2008, including financial, operational and compliance control and risk management functions and assessed the effectiveness of internal control by considering reviews performed by the audit committee, executive management and external advisor.

COMMUNICATION WITH SHAREHOLDERS

The Board will endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings 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 and the rights of shareholders to demand a poll are included in all circulars to shareholders and 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 meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of the Board as well as 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 extensive 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, 24 April 2009

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 18 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 33.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008.

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 14 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out on note 26 to the financial statements page 96.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out on note 25 to the financial statements.

DIRECTORS

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

Tong Nai Kan	
Chow Sim Chu, Shirley	
Wang Wengang	(appointed on 15 December 2008)
Tan Chuanrong	
Ko Ming Tung, Edward#	(appointed on 5 March 2008)
Chan Kin Sang*	
Lam Yat Fai*	
Liu Ngai Wing*	
Tang Tin Sek*	
Chen Jiqing	(resigned on 26 March 2008)

\# Non-executive Director

* Independent Non-executive Directors

In accordance with Articles 104 and 105 of the Articles of Association of the Company, Mr. Chan Kin Sang, Mr. Tang Tin Sek and Mr. Tan Chuanrong will retire by rotation at the forthcoming Annual General Meeting. Mr. Chan being eligible, will offer himself for re-election, but Mr. Tang and Mr. Tan will not offer themselves for re-election.

In accordance with Article 110 of the Articles of Association of the Company, Mr. Wang Wengang will retire at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

The term of office for each Non-executive Director is the period up to his retirement by rotation in accordance with the Articles of Association of the Company.

The Directors of the Company do not have any 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 of the Company 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 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 (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:

(A) Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan	Corporate *(Note)*	180,000,000	6.10%
Tan Chuanrong	Personal	142,500,000	4.83%
Chow Sim Chu, Shirley	Personal	1,310,000	0.04%
Tang Tin Sek	Personal	158,000	0.01%

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

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

Name of Director	Date of grant	Number of underlying shares comprised in the options	Exercise price per share *HK$*	Exercisable period
Lam Yat Fai	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011
Liu Ngai Wing	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011
Tang Tin Sek	8 March 2006	610,000	0.2648	8 April 2006 to 7 March 2011

Save as disclosed above, as at 31 December 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 SEO); 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 of the Company 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 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 (*Note 1*)	Corporate	180,000,000	6.10%
Time Prosper Holdings Limited ("Time Prosper")	Beneficial	120,000,000	4.07%
Gold Blue Group Limited ("Gold Blue")	Beneficial	60,000,000	2.03%
Guo Yanni *(Note 2)*	Corporate	250,000,000	8.47%
Shine Channel Corporation Limited ("Shine Channel")	Beneficial	250,000,000	8.47%
Liu Kanwei *(Note 3)*	Corporate	400,000,000	13.56%
Joyous Wing Investments Limited ("Joyous Wing")	Beneficial	400,000,000	13.56%
He Zhitao *(Note 4)*	Corporate	400,000,000	13.56%
Pearl Day Group Limited ("Pearl Day")	Beneficial	400,000,000	13.56%

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.

3. Mr. Liu Kanwei is the beneficial owner of the entire issued share capital of Joyous Wing

4. Mr, He Zhitao is the beneficial owner of the entire issued share capital of Pearl Day.

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 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 (the "Options") subject to the terms and conditions stipulated in the Scheme. During the year, share options are granted to employees specified under 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 (the "Refreshed Scheme Limit"), representing 10% of the issued share capital of the Company as at 30 May 2007.

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, the total number of shares available for issue under the Scheme was 127,881,439 shares, which represented approximately 4.33% of the issued share capital of the Company on that date.

(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.

Details of the share options outstanding as at 31 December 2008 which have been granted under the Scheme are as follows:

				Number of share options					
Categories of participant	**Date of grant**	**Exercise price** *(HK$)*	**Exercisable period**	**As at 1 January 2008**	**Granted**	**Exercised**	**Lapsed**	**As at 31 December 2008**	**Closing price immediately before the date of grant** *(HK$)*
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
				187,210,000	–	–	173,480,000	13,730,000	

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 during the year attributable to the Group's five largest customers was 26.21% of the Group's total turnover, of which 14.88% was made to the largest customer.

The aggregate purchase of revenue items during the year attributable to the Group's five largest suppliers was 91.18% of the Group's total purchases of revenue and services, of which 49.55% 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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2008, the Group entered into the following connected transactions:

ON 16 July 2008, Nation Rich Investment Limited, a wholly-owned subsidiary of the Company, entered into the share transfer agreement ("Share Transfer Agreement") with the vendors (the "Vendors"), pursuant to which Ntation Rich ("Natrion Rich") has conditionally agreed to acquire the entire issued share capital of Canada Can-Elite Energy Limited at a consideration of HK$2,500,000,000. Mr He Zhitao, who was a director of two subsidiaries of the Company within preceding 12 months period prior to the date of the Share Transfer Agreement, is indirectly held 50% interest in the Vendors.

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 Board, 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 that the independent non-executive directors are not appointed for a specific terms as they are subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

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.

AUDITORS

PricewaterhouseCoopers had acted as auditor of the Company for the two years ended 31 December 2006 and 2007. On 25 June 2008, PricewaterhouseCoopers retired as auditor of the Company and did not offer themselves for re-appointment at the annual general meeting held on that date. CCIF CPA Limited was appointed as the auditor of the Company on the adjourned annual general meeting held on 28 August 2008.

CCIF CPA Limited will retire in the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. 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, 24 April 2009

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 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 (collectively referred to as the "Group") set out on pages 33 to 113, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 2008 and of the Group's profit 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, 24 April 2009

Leung Chun Wa
Practising Certificate Number P04963

	Note	2008 HK$'000	2007 HK$'000
Turnover	5	**139,439**	135,113
Cost of sales		**(101,145)**	(78,213)
Gross profit		**38,294**	56,900
Other income	7	**1,104**	2,221
Selling and distribution expenses		**(11,020)**	(11,392)
Administrative expenses		**(66,850)**	(87,689)
Impairment loss of goodwill	17	**(167,279)**	–
Loss on extinguishment of promissory note	29(a)	**–**	(172,369)
Fair value change of convertible bonds' embedded derivatives	29(b)	**(21,983)**	16,971
Discount on acquisition of subsidiaries	36	**545,470**	–
Operating profit/(loss)		**317,736**	(195,358)
Finance income		**745**	767
Finance costs	8(a)	**(9,822)**	(8,303)
Finance costs, net		**(9,077)**	(7,536)
Profit/(loss) before taxation	8	**308,659**	(202,894)
Income tax	11	**1,780**	1,324
Profit/(loss) for the year		**310,439**	(201,570)
Attributable to:			
Equity holders of the Company	12	**310,439**	(201,547)
Minority interests		**–**	(23)
		310,439	(201,570)
Earnings/(loss) per share	13		
Basic		**HK14.67 cents**	(HK13.31 cents)
Diluted		**HK14.67 cents**	(HK13.31 cents)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	**2008** *HK$'000*	2007 *HK$'000*
Non-current assets			
Property, plant and equipment	14	**180,019**	136,283
Prepaid lease payments	15	**2,322**	2,388
Other intangible assets	16	**3,726,902**	6,360
Goodwill	17	**–**	159,058
Investment in an associate	19	**–**	–
Available-for-sale financial assets	20	**2,771**	2,771
		3,912,014	306,860
Current assets			
Inventories	21	**2,898**	2,241
Prepaid lease payments	15	**202**	184
Trade and other receivables	22	**16,882**	50,404
Amounts due from related parties	23	**12,417**	12,003
Cash and bank balances	24	**38,857**	41,511
		71,256	106,343
Total assets		**3,983,270**	413,203

	Note	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	25	**737,609**	475,109
Reserves	26	**619**	(149,989)
Equity attributable to equity holders of the Company		**738,228**	325,120
Minority interests		**–**	–
Total equity		**738,228**	325,120
Non-current liabilities			
Other borrowings	28	**21,725**	–
Bank loans	28	**5,653**	17,067
Finance lease obligations	28	**771**	–
Promissory note	30(b)	**160,154**	–
Convertible bonds – liability portion	29(b)	**1,877,351**	–
Deferred tax liabilities	31	**935,360**	5,506
		3,001,014	22,573
Current liabilities			
Bank loans	28	**20,351**	19,734
Other borrowings	28	**23,799**	857
Finance lease obligations	28	**187**	97
Trade and other payables	32	**49,847**	42,533
Convertible bonds- embedded derivatives	29(b)	**146,953**	–
Amounts due to related parties	33	**1,779**	1,740
Current taxation	11(c)	**1,112**	549
		244,028	65,510
Total liabilities		**3,245,042**	88,083
Total equity and liabilities		**3,983,270**	413,203
Net current (liabilities)/assets		**(172,772)**	40,833
Total assets less current liabilities		**3,739,242**	347,693

Tong Nai Kan
Director

Chow Sim Chu, Shirley
Director

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	14	**1,476**	3,132
Interests in subsidiaries	18	**2,253,999**	–
Interest in an associate	19	**–**	–
Available-for-sale financial assets	20	**2,771**	2,771
		2,258,246	5,903
Current assets			
Amounts due from subsidiaries	18	**207,067**	272,251
Other receivables	22	**7,345**	34,614
Amounts due from related parties	23	**–**	289
Cash and bank balances	24	**770**	8,762
		215,182	315,916
Total assets		**2,473,428**	321,819
Capital and reserves			
Share capital	25	**737,609**	475,109
Reserves	26	**(507,628)**	(195,699)
Total equity		**229,981**	279,410
Non-current liabilities			
Promissory note	30(b)	**160,154**	–
Convertible bonds – liability portion	29(b)	**1,877,351**	–
		2,037,505	–
Current liabilities			
Amounts due to subsidiaries	18	**32,695**	39,065
Other payables	32	**4,895**	3,344
Other borrowing	28	**20,000**	–
Convertible bonds – embedded derivatives	29(b)	**146,953**	–
Amounts due to related parties	33	**1,399**	–
		205,942	42,409
Total liabilities		**2,243,447**	42,409
Total equity and liabilities		**2,473,428**	321,819
Net current assets		**9,240**	273,507
Total assets less current liabilities		**2,267,486**	279,410

Tong Nai Kan
Director

Chow Sim Chu, Shirley
Director

	Attributable equity holders of the Company					
	Share Capital HK$'000	Reserves (note 26) HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority Interests HK$'000	Total equity HK$'000
At 1 January 2007	264,729	84,431	(212,656)	136,504	23	136,527
Exchange differences on translation of subsidiaries outside Hong Kong	–	16,223	–	16,223	–	16,223
Issue of new shares, net of expenses *(note 25(a))*	50,000	8,820	–	58,820	–	58,820
Issue of new shares on conversion of convertible bonds *(note 29(a))*	153,355	130,574	–	283,929	–	283,929
Issue of new shares upon exercise of share options *(note 27)*	7,025	286	–	7,311	–	7,311
Equity settled share-based transactions *(note 27(c))*	–	23,880	–	23,880	–	23,880
Share options forfeited *(note 27)*	–	(130)	130	–	–	–
Transfer to statutory reserves	–	2,169	(2,169)	–	–	–
Loss for the year	–	–	(201,547)	(201,547)	(23)	(201,570)
At 31 December 2007 and 1 January 2008	475,109	266,253	(416,242)	325,120	–	325,120
Exchange differences on translation of subsidiaries outside Hong Kong	–	8,169	–	8,169	–	8,169
Issue of new shares, net of expenses *(note 25(c))*	62,500	–	–	62,500	–	62,500
Acquisition of subsidiaries *(note 25(d))*	200,000	–	(168,000)	32,000	–	32,000
Share options forfeited *(note 27)*	–	(29,477)	29,477	–	–	–
Transfer to statutory reserves	–	518	(518)	–	–	–
Profit for the year	–	–	310,439	310,439	–	310,439
At 31 December 2008	737,609	245,463	(244,844)	738,228	–	738,228

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	**2008**	2007
		HK$'000	*HK$'000*
Operating activities			
Operating profit/(loss)		**317,736**	(195,358)
Adjustments:			
Loss on extinguishment of promissory note	29(a)	**–**	172,369
Fair value change of convertible bonds' embedded derivatives	29(b)	**21,983**	(16,971)
Depreciation	14	**9,586**	8,520
Amortisation of prepaid lease payments	8(c)	**200**	183
Amortisation of rights to use gas pipelines	8(c)	**560**	513
Amortisation of production sharing contract	8(c)	**10,283**	–
Discount on acquisition of subsidiaries	36	**(545,470)**	–
Share options granted to employees	8(b)	**–**	23,880
Impairment loss of goodwill	8(c), 17	**167,279**	–
Write-down of inventories	8(c)	**3**	702
Impairment on trade receivables	8(c)	**35**	–
Impairment on other receivables	8(c)	**–**	5,620
Loss on disposal of property, plant and equipment	8(c)	**1,090**	60
Operating loss before working capital changes		**(16,715)**	(482)
Increase in inventories		**(660)**	(60)
Increase in net amounts due from related parties		**(375)**	(2,874)
Decrease/(increase) in trade and other receivables		**33,764**	(22,948)
Decrease in trade and other payables		**3,692**	3,623
Cash used in operations		**19,706**	(22,741)
Interest received		**745**	767
Interest paid		**(2,788)**	(3,112)
Interest element of finance lease rental payments		**(16)**	(28)
Overseas profits tax paid		**(877)**	(29)
Net cash inflow/(outflow) from operating activities		**16,770**	(25,143)
Cash flows from investing activities			
Acquisition of subsidiaries	36	**(67,155)**	–
Purchase of property, plant and equipment		**(23,303)**	(7,828)
Proceeds from disposal of property, plant and equipment		**905**	88
Proceeds from disposal of available-for-sale financial assets		**–**	20
Net cash outflow from investing activities		**(89,553)**	(7,720)

	Note	**2008**	2007
		HK$'000	*HK$'000*
Cash flows from financing activities			
Proceeds from issue of new shares	25	**62,500**	67,331
Share issue expenses		**–**	(1,200)
Proceeds from borrowings		**20,000**	–
Repayment of bank loans		**(11,654)**	(11,482)
Repayment of finance lease obligations		**(112)**	(291)
Net cash inflow from financing activities		**70,734**	54,358
Net (decrease)/increase in cash and cash equivalents		**(2,049)**	21,495
Cash and cash equivalents at beginning of year		**41,511**	20,339
Effect of foreign exchange rate changes		**(605)**	(323)
Cash and cash equivalents at end of year, represented by cash and bank balances	24	**38,857**	41,511

Major non-cash transactions

(a) The fair value of consideration of the acquisition of Merit First Investments Limited was partially satisfied by the issue of consideration shares totalling 800,000,000 shares of HK$0.25 at a published price of HK$0.04 each, promissory note of HK$155,457,000 and convertible bonds of HK$2,000,000,000 as referred to note (36).

(b) During the year ended 31 December 2008, the Group acquired a motor vehicle amounted to HK$973,000 under a finance lease.

1. GENERAL INFORMATION

New Smart Energy Group Limited (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 19th floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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 in Mainland China or The Peoples Republic of China ("PRC") and technology related business.

On 26 November 2008, the Group has obtained 100% equity interest in Canada Can-Elite Energy Ltd ("Can-Elite") through the acquisition of 100% equity interest in Merit First Investment Limited ("Merit First"). On 9 November 2007, Can-Elite entered into a coalbed methane ("CBM") production sharing contract to exploit, develop and produce coalbed methane in Anhui Province, the PRC. Further details in relation to this contract and the Group's share of results and net assets in these arrangements are disclosed in notes 16 and 36.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively includes Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("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.

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKFRS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19: The Limited on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRS[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfers on or after 1 July 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

The adoption of HKAS 1 (Revised) may result in a change in presentation of the primary statements of the financial statements. The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the applications of the new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group

(b) Basis of preparation of the financial statements

The financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (collectively 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 embedded derivatives portion of convertible bonds which are stated at fair value.

The preparation of the financial statements in conformity with Hong Kong Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the processes of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 below.

In preparing the financial statements, the directors of the Company have considered carefully the future liquidity of the Group, net current liabilities of the Group and capital commitments, under the coalbed methane ("CBM") Production Sharing Contract ("PSC") as at 31 December 2008. The directors of the Company are of the opinion that the Group will be able to finance its future working capital and financial requirements given that:

(i) Proud City Investments Limited, a substantial shareholders of the Company and holder of the Company's convertible bonds at par value of HK$2,000,000,000, promissory note at par value of HK$240,000,000 and other loan of HK$20,000,000, has agreed not to demand repayment of the promissory note with maturity falling on 26 May 2010 and other loan payable due in 2009 unless the Company has sufficient working capital;

(ii) the two substantial shareholders of the Company have agreed to provide continual financial support as is necessary to enable the Group to meet its liabilities as they fall due;

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(iii) the Company has been actively in discussions with the principal bankers and financial institutions for new working capital for the exploration, development and exploitation of coalbed methane gas under the PSC; and

(iv) based on a future cash flow forecast, the directors of the Company are of the opinion that the Group will have sufficient working capital for its requirements for the next twelve months after the date of approval of the financial statements.

(c) Subsidiaries and minority 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 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.

Minority interests represent the portion of the net asset of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loan from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2 (j)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement established that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement of the Group includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity 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 or the jointly controlled entity.

Unrealised profits and losses resulting from the Group's transactions with the associate and jointly controlled entities are eliminated to the extent of the Group's relevant interests in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred in which case losses are recognised immediately in profit or loss.

In the Company's balance sheet, its investment in an associate and jointly controlled entity is stated at cost less impairment losses (see note 2 (j)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates and jointly controlled entities *(Continued)*

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 balance sheet 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.

The 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.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2 (j)(ii)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in income statement.

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

(f) Other investments in equity securities

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

Investments in equity securities are initially stated at cost, 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 equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see note 2 (j)(i)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in equity securities *(Continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except foreign exchange gain and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognized directly in profit or loss. Dividend income from these investments is recognized in profit or loss in accordance with policy set out in note 2(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in profit or loss in accordance with policy set out in note. When these investments are derecognized or impaired (see note 2 (j)(i)), the cumulated gain or loss previously recognized directly inequity is recognized in profit or loss.

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

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2 (j)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use, the cost of borrowed funds used during the year of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

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 at the following annual rates:

Buildings	remaining lease term
Leasehold improvements	remaining lease term
Furniture and fixtures	10 to 20%
Gas pipelines	5%
Motor vehicles	10 to 20%
Plant and equipment	10 to 33.3%

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Gain or loss 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.

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost in the balance sheet at cost less impairment losses (see note 2 (j)(ii)). Cost comprises all direct and indirect costs, including interest charges (see note 2 (q)) related to acquisition and installation of property, plant and equipment, incurred before the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(h) Other intangible assets (other than goodwill)

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2 (j) (ii)). 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 the income statement on a straight-line basis over the asset's estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and over their estimated useful lives are as follows:

– Right to use gas pipeline
– CBM production sharing contract

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

Intangible assets are not amortised while 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 assets with finite lives as set out above.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) 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 o 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 except for 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 leasee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2 (g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2 (j)(ii). Finance charge implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting period 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 incentive received is recognised in income statement in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries, associates and jointly controlled entities) that trade and other receivables are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– 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.

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

– For unquoted equity securities carried at cost, the 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 a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade receivables and other financial assets carried at amortised cost, the 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 financial assets carried at amortised cost 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

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

– 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 directly in equity is removed from equity and is recognised in 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.

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 the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);
– prepaid lease payments;
– goodwill;
– other intangible assets;
– available-for-sale financial assets; and
– investments in subsidiaries, associates and jointly controlled entities

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the higher 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 the income statement whenever 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) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) 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.

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.

(k) Inventories

Inventories are carried at lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs to 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 realisable as an expense in the period in which the related revenue is realisable. 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 of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) 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 2 (j)(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 impairment of doubtful debts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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 holders, where the number of shares that would be issued on conversion and the value of the consideration that would be received 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 determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option as 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, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to retained profits.

(ii) Convertible notes that do not contain an equity component

All other convertible notes which do not exhibit the characteristics mentioned in (i) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible notes is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible note are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the income statement. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Convertible notes *(Continued)*

(ii) Convertible notes that do not contain an equity component (Continued)

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in income statement.

(n) Interest-bearing borrowings and promissory notes

Interest-bearing borrowings and promissory notes are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings and promissory notes are stated at amortised cost, any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings, using the effective interest method.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, deemed deposits with banks and other financial institutions and short term highly liquid investments that 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 cash flow statement.

(p) 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.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that 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. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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 after 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 share options, the total estimated fair value of the share 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 income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share 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 options is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(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 realistic possibility of withdrawal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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 the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, 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.

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 balance sheet date. Deferred tax assets and liabilities are not discounted.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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 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.

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Group's presentation currency. The Company's functional currency is Hong Kong dollar.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translated differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) the have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from gas connection is recognised when the outcome of the contract can be estimated reliably and completion for the connection of the relevant gas meter.

Revenue from sale of natural gas is recognised based on gas consumption derived from meter readings.

Revenue from sale of electronic components and gas appliances is recognised when goods are delivered and legal title passed to customers.

Rental income under operating leases is recognised over the periods of the respective leases on a straight-line basis.

Interest income is recognised on a time proportion basis using the effective interest rate method.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in income statement on a systemic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as revenue in income statement on a systemic basis over the useful life of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

Parties are considered to be related to the Group if:

(i) the party has the ability, directly, or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of any individual referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions eliminated as part of the consolidation process, except to the extent that such intra-group balance and transactions are between group entities within a single segment, inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. FINANCIAL RISK MANAGEMENT

The activities of the Group expose it to a variety of financial risks, including foreign currency risk, price risk on embedded conversion option, credit risk, liquidity risk, interest-rate risk and market risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group currently does not use any derivative financial instruments to hedge against its risk exposures.

Financial risk management is carried out by the finance department under policies approved by the board of directors of the Company. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Foreign currency risk

The Group collects most of it revenue in RMB and incurs most of the expenditure as well as capital expenditure in RMB. The directors consider that the Group's exposure to foreign currency risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

As at the balance sheet date, the Group has convertible bonds and promissory note denominated in Hong Kong dollars ("HK$") and certain bank balances denominated in United State Dollars ("US$") and HK$ amounting to HK$42,000 (2007: HK$165,000), HK$3,698,000 (2007: HK$11,107,000), which is the currency other than the functional currency of the respective group entities.

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 arises.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Foreign currency risk *(Continued)*

Except for the convertible bonds and promissory note and bank balances denominated in HK$ and US$, the directors consider that the sensitivity of the Group exposure towards the change in foreign exchange rates is minimal as the assets and liabilities for the Group, denominated in currency other than functional currency of a particular group entity were insignificant as at the balance sheet dates. The sensitivity analysis of convertible bonds, promissory note and bank balances were as follows:

The Group is mainly exposed to the foreign currency risk in HK$ and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$ and 5% increase and decrease in RMB against HK$ as the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only HK$ and US$ convertible bonds, promissory note and bank balances, and adjust their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit, when RMB strengthens 5% against the relevant currency. For a 5% weakening of RMB against the HK$ and US$, there would be an equal and opposite impact on the profit or loss. The analysis is performed on the same basis for 2007.

	2008	2007
	HK$'000	*HK$'000*
HK$ promissory note	**8,008**	–
HK$ convertible bonds	**101,215**	–
US$ bank balances	**(2)**	(8)
HK$ bank balances	**(185)**	(555)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(b) Price risk on embedded conversion option

The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible bonds are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company' share market price and share price volatility.

The sensitivity analyses below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company' share price had been 10% higher/lower and all other variables were held constant, the Group's post-tax profit for the year (as a result of changes in fair values of conversion option component of convertible bonds) would decrease/increase by HK$21,338,000 (2007: Nil).

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Price risk on embedded conversion option *(Continued)*

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of convertible bonds involves multiple variables. The variables used to estimate the fair value of the multiple embedded derivative features especially the embedded conversion option and mandatory redemption option held by the bondholders are independent.

(c) Credit risk

The Group is exposed to credit risk mainly from trade debtors but there is no significant concentrations of credit risk with any single counterparty or group of counterparties. It has policies in place to ensure that sales are made to customers with an appropriate credit history and limit the amount of credit exposure to any financial institution.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk from trade and other receivables are set out in note 22.

The Group places its cash and bank balances with highly rated financial institutions which limits the amount of credit exposure to any one financial institution.

3. FINANCIAL RISK MANAGEMENT ***(Continued)***

(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 institutes to meet its liquidity requirements in the short and longer term.

The Group had net current liabilities of approximately HK$172,772,000 as at 31 December 2008. The Group had net cash generated from operating activities amounted to HK$16,770,000 during the year ended 31 December 2008. The consolidated financial statements have been prepared on a going concern basis because the directors of the Company believed that the Group has sufficient funds to finance its current working capital requirements taking into account of the cash flows from operations and financial support from the substantial shareholder, Proud City Investments Limited which is the holder of the convertible bonds of HK$2,000,000,000 due on 25 November 2013, promissory note of HK$240,000,000 due on 26 May 2010 and short-term other payable of HK$20,000,000, and Mr. Tong Nai Kan, a beneficial substantial owner and director of the Company, and its principal banks.

The directors of the Company have carried out a detailed review of the cash flow forecast for the year ending 31 December 2009. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital expenditure requirements of the Group during the year. The directors are of the opinion that the assumptions which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative 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 balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2008					2007				
	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*
Bank loans	**26,004**	**26,004**	**20,351**	**5,653**	**–**	36,801	36,801	19,734	11,734	5,333
Other borrowings	**45,524**	**45,524**	**23,799**	**3,799**	**17,926**	857	857	857	–	–
Obligation under finance lease	**958**	**1,135**	**257**	**878**	**–**	97	106	106	–	–
Trade and other payables	**49,847**	**49,847**	**49,847**	**–**	**–**	42,533	42,533	42,533	–	–
Promissory note	**160,154**	**240,000**	**–**	**240,000**	**–**	–	–	–	–	–
Convertible bonds (including embedded derivatives portion)	**2,024,304**	**2,000,000**	**–**	**–**	**2,000,000**	–	–	–	–	–
Amounts due to related parties	**1,779**	**1,779**	**1,779**	**–**	**–**	1,740	1,740	1,740	–	–
	2,308,570	**2,364,289**	**96,033**	**250,330**	**2,017,926**	82,028	82,037	64,970	11,734	5,333

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Liquidity risk *(Continued)*

The Company

	2008					2007				
	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	4,895	4,895	4,895	–	–	3,344	3,344	3,344	–	–
Other borrowings	20,000	20,000	20,000	–	–	–	–	–	–	–
Promissory note	160,154	240,000	–	240,000	–	–	–	–	–	–
Convertible bonds (including embedded derivatives portion)	2,024,304	2,000,000	–	–	2,000,000	–	–	–	–	–
Amounts due to related parties	1,399	1,399	1,399	–	–	–	–	–	–	–
	2,210,752	2,266,294	26,294	240,000	2,000,000	3,344	3,344	3,344	–	–

(e) Interest rate risk

The Group's interest rate risk arises from the Group's bank deposits, long term borrowings, borrowings issued at variable rates and convertible notes.

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all variables held constant, would increase/decrease the Group's net profit for the year and retained profits by approximately HK$129,000 (2007: HK$47,000). This sensitive analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2007.

3. FINANCIAL RISK MANAGEMENT ***(Continued)***

(f) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2008 and 2007.

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

(i) Cash and cash equivalents, trade and other receivables, and trade and other payables

The carrying values of these financial assets and liabilities approximate fair value because of the short maturities of these instruments.

(ii) Interest-bearing loans and borrowings and promissory notes

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(g) 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 arises.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have s significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of property, plant and equipment, prepaid lease prepayments and goodwill

The Group tests at least annually whether goodwill or assets that have indefinite 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. During the year, impairment loss for goodwill of HK$167,279,000 was recognised in the consolidated income statement. As at 31 December 2008, the carrying amount of goodwill was nil.

(ii) Fair value of available-for-sale financial assets

The fair value of each investment individually is determined at each balance sheet date by reference to comparable market information. It is also being reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset has been affected. The fair value also reflects any net discounted cash flows that could be expected from the investment.

(iii) Income taxes and deferred taxation

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the provision for taxation. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred taxation provisions in the financial period in which such determination is made.

Deferred tax assets relating to certain temporary differences and certain tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences will impact the recognition of deferred tax and tax in the periods in which such estimate is changed.

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

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

(iv) Impairment of receivables

The Group maintains impairment allowance for doubtful debts account based upon evaluation of the recoverability of the accounts receivable and other receivables. The estimates are based on the ageing of the accounts receivables and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(v) Estimates for reserves of coalbed methane under the Production Sharing Contract ("PSC")

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 as referred to 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:

- Carrying amounts of PSC may be affected due to changes in estimated future cash flows;
- 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 amounts of deferred tax may change as a result of changes in the asset carrying amounts as discussed above.

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

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

(vi) Recognition of intangible asset – Production Sharing Contract

The fair value of the Production Sharing Contract (note 16) at acquisition date has been arrived at on the basis of an independent professional valuation carried out by BMI Appraisals Limited and a technical assessment report 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 valuation conformed to the general guidance as stated in HFRS 3 para 45 on determining the fair values of intangible assets acquired in business combinations. The fair value of the intangible asset as at the acquisition date was arrived at by income approach valuation methodology.

Had different parameters and discount rate been used to determine the fair value of the intangible asset, the Group's results of operations and financial position could be materially different.

(vii) Convertible bonds and promissory note

The fair value of convertible bonds and promissory note are estimated by independent professional valuer based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value.

The embedded derivatives of convertible bonds consisting of the conversion and redemption options have been separated from the host debt contract and accounted for as derivative financial instruments (note 29). The fair value of these derivative financial instruments is determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumption that are mainly based on market conditions existing at the issue date and each balance sheet date. The valuation model requires the input of subjective assumptions, including the stock price, expected volatility, risk free rate and expected life. Changes in subjective input assumptions can materially affect the fair value estimate.

5. TURNOVER

	2008	2007
	HK$'000	*HK$'000*
Turnover		
Sales of electronic components	**49,033**	59,458
Gas connection fee	**43,046**	41,409
Sales of natural gas	**47,042**	34,175
Sales of gas appliances	**29**	71
Sales of CBM products	**289**	–
	139,439	135,113

6. SEGMENT INFORMATION

Segment information is presented of the Group's business and geographical segments. Business segment is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group organises its business into four main segments:

- Sales of natural gas
- Sales of technology products
- CBM exploration and exploitation
- Corporate and others

	Natural gas *HK$'000*	Technology *HK$'000*	CBM exploration and exploitation *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
2008					
Revenue	**90,117**	**49,033**	**289**	**–**	**139,439**
Segment results	**6,777**	**(1,071)**	**(10,986)**	**(33,192)**	**(38,472)**
Impairment loss of goodwill	**(167,279)**				**(167,279)**
Discount on acquisition of subsidiaries			**545,470**		**545,470**
Fair value change of convertible bonds' embedded derivatives			**(21,983)**		**(21,983)**
Finance income					**745**
Finance costs					**(9,822)**
Profit before taxation					**308,659**
Taxation					**1,780**
Profit for the year					**310,439**
Capital expenditure	**22,396**	**–**	**3,754,226**	**1,705**	**3,778,327**
Depreciation	**8,047**	**74**	**207**	**1,258**	**9,586**
Amortisation of prepaid lease payments	**200**	**–**	**–**	**–**	**200**
Amortisation of right to use gas pipelines	**560**	**–**	**–**	**–**	**560**
Amortisation of PSC	**–**	**–**	**10,283**	**–**	**10,283**
Segment assets	**185,624**	**2,627**	**3,743,867**	**12,295**	**3,944,413**
Unallocated assets					**38,857**
Total assets					**3,983,270**
Segment liabilities	**27,507**	**11,873**	**2,214,971**	**7,258**	**2,261,609**
Unallocated liabilities					**983,433**
Total liabilities					**3,245,042**

6. SEGMENT INFORMATION *(Continued)*

Business segments ***(Continued)***

	Natural gas *HK$'000*	Technology *HK$'000*	CBM exploration and exploitation *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
2007					
Revenue	75,655	59,458	–	–	135,113
Segment results	26,055	(1,679)	–	(219,734)	(195,358)
Finance income					767
Finance costs					(8,303)
Loss before taxation					(202,894)
Taxation credit					1,324
Loss for the year					(201,570)
Capital expenditure	5,941	–	–	1,887	7,828
Depreciation	7,116	89	–	1,315	8,520
Amortisation of prepaid lease payments	183	–	–	–	183
Amortisation of right to use pipelines	513	–	–	–	513
Impairment of trade receivables	5,378	49	–	193	5,620
Write-down of inventories	–	702	–	–	702
Segment assets	321,241	10,890	–	39,561	371,692
Unallocated assets					41,511
Total assets					413,203
Segment liabilities	17,675	19,513	–	7,085	44,273
Unallocated liabilities					43,810
Total liabilities					88,083

6. SEGMENT INFORMATION *(Continued)*

Geographical segments

	Revenue	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2008			
Hong Kong	**49,033**	**18,670**	**1,695**
PRC	**90,406**	**3,964,600**	**3,776,632**
	139,439	**3,983,270**	**3,778,327**
Year ended 31 December 2007			
Hong Kong	59,458	60,146	1,024
PRC	75,655	353,057	6,804
	135,113	413,203	7,828

7. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Government grant	**309**	1,620
Exchange gain	**–**	11
Sundries	**795**	590
	1,104	2,221

8. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

		2008	2007
		HK$'000	*HK$'000*
(a)	Finance costs- interest expenses on following borrowings wholly repayable within five years		
	Embedded interest on promissory note	**4,697**	4,839
	Embedded interest on convertible bonds	**2,321**	324
	Bank loans and overdrafts	**2,605**	3,112
	Finance lease obligations	**16**	28
	Other borrowings	**183**	–
	Total interest expense on financial liabilities not at fair value through profit or loss	**9,822**	8,303
(b)	Staff costs (including directors' remuneration)		
	Salaries, wages and other benefits	**25,576**	25,660
	Share options	**–**	23,880
	Contributions to defined contribution retirement plans	**867**	870
		26,443	50,410
(c)	Other items		
	Amortisation		
	– Prepaid lease payments	**200**	183
	– Right to use gas pipelines	**560**	513
	– Production sharing contract	**10,283**	–
	Depreciation		
	– Owned assets	**9,531**	8,236
	– Leased assets	**55**	284
	Cost of inventories sold	**42,265**	52,449
	Cost of natural gas sold	**29,888**	21,594
	Operating lease rental expense for land and buildings	**5,114**	5,340
	Loss on disposal of property, plant and equipment	**1,090**	60
	Impairment loss of goodwill	**167,279**	–
	Impairment on trade receivables	**35**	–
	Impairment on other receivables	**–**	5,620
	Write-down on inventories	**3**	702
	Auditor's remuneration		
	– Audit services	**1,200**	1,560
	– Non-audit services	**450**	420
	Legal and professional fees	**3,002**	7,984

8. PROFIT/(LOSS) BEFORE TAXATION *(Continued)*

Cost of natural gas sold included HK$1,628,000 (2007: HK$1,098,000) relating to staff cost.

9. DIRECTORS' EMOLUMENTS

	Directors' fees	Salaries and allowances	Defined contribution schemes	Benefits-in-kind	2008 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Tong Nai Kan	150	2,400	12	1,968	4,530
Chow Sim Chu, Shirley	150	630	12	–	792
Tan Chuanrong	45	1,225	–	–	1,270
Wang Wengang (appointed on 15/12/2008)	7	54	–	–	61
Chen Jiqing (resigned on 26/3/2008)	–	–	–	–	–
Non-executive directors					
Ko Ming Tung	124	–	–	–	124
Independent non-executive directors					
Tang Tin Sek	150	–	–	–	150
Liu Ngai Wing	150	–	–	–	150
Lam Yat Fai	150	–	–	–	150
Chan Kin Sang	150	–	–	–	150
	1,076	4,309	24	1,968	7,377

9. DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees *HK$'000*	Salaries and allowances *HK$'000*	Defined contribution schemes *HK$'000*	Share options *HK$'000*	2007 Total *HK$'000*
Executive directors					
Tong Nai Kan	150	3,978	12	–	4,140
Chow Sim Chu, Shirley	150	580	12	–	742
Tan Chuanrong	137	963	–	–	1,100
Bai Yang (resigned on 10/12/2007)	141	226	11	–	378
Chen Jiqing	17	–	–	–	17
Independent non-executive directors					
Tang Tin Sek	150	–	–	–	150
Liu Ngai Wing	150	–	–	–	150
Lam Yat Fai	150	–	–	–	150
Chan Kin Sang	150	–	–	–	150
	1,195	5,747	35	–	6,977

There was no amount paid during the years ended 31 December 2008 and 2007 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 2008 and 2007.

10. INDIVIDUALS WITH FIVE HIGHEST EMOLUMENTS

Out of the emoluments of the five individuals with the highest emoluments, three (2007: two) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2007: three) individuals are as follows:

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

	Number of individuals	
Emoluments bands	**2008**	2007
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**3**	3
HK$4,000,001 to HK$4,500,000	**1**	1
	5	5

11. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2008	2007
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
PRC enterprise income tax	**1,443**	–
Deferred taxation		
PRC	**(3,223)**	(1,324)
	(1,780)	(1,324)

11. INCOME TAX *(Continued)*

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2008	2007
	HK$'000	*HK$'000*
Profit/(loss) before taxation	**308,659**	(202,894)
Tax calculated at a taxation rate of 25% (2007: 15%)	**77,165**	(30,434)
Tax relief	**(1,472)**	(4,884)
Income not subject to taxation	**(136,369)**	(30)
Expenses not deductible for taxation purposes	**62,119**	35,348
Effect of temporary difference	**(3,223)**	(1,324)
Taxation	**(1,780)**	(1,324)

Hong Kong profit tax has not been provided as the Group do not have any assessable profit for the year (2007: nil). Taxation on overseas profits had been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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%.

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.

The subsidiaries in the PRC are subject to an income tax rate of 15%, being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in the 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 People's Republic of China approved by the National People's Congress approved the on 16 March 2007, the corporate income tax rate for wholly foreign owned enterprises has been increased from 15% to 25% with effect from 1 January 2008.

11. INCOME TAX *(Continued)*

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. 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 PRC for avoidance of double taxation and prevention of tax evasion, dividends declared from PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax from 1 January 2008 and onwards.

(c) Current taxation in the consolidated balance sheet represents:

	The Group	
	2008	2007
	HK'000	*HK'000*
Provision for PRC enterprise income tax	**1,112**	549

12. PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The profit/(loss) for the year attributable to equity holders of the Company includes a loss of HK$142,727,000 (2007: a loss of HK$198,364,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$310,439,000 (2007: loss of HK$201,570,000) and the weighted average of 2,115,639,871 (2007: 1,514,674,391) ordinary shares in issue during the year, calculated as follows:

	2008	2007
Issue ordinary shares at 1 January	**1,900,434,391**	1,058,914,391
Effect of conversion of convertible bonds	**–**	292,206,850
Share option exercised	**–**	18,347,671
Issue of new ordinary shares	**136,301,370**	145,205,479
Issue of new ordinary shares on acquisition	**78,904,110**	–
Weighted average number of ordinary shares at 31 December	**2,115,639,871**	1,514,674,391

(b) Diluted earnings/(loss) per share

	2008	2007
Weighted average number of ordinary shares (diluted) at 31 December	**2,115,639,871**	1,514,674,391

The diluted earnings per share for the year ended 31 December 2008 is same as the basic earnings per share as the exercise price of outstanding convertible bonds during the year was higher than the average market price of the Company's share and accordingly, there was no dilutive effect on the basic earnings per share.

The diluted loss per share for the year ended 31 December 2007 was calculated by adjusting the weighted average number of shares assuming the conversion of all the share options. The exercise of share options would not have a dilutive effect on the loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Gas pipelines HK$'000	Construction in progress HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost:								
At 1 January 2007	9,484	114,565	112	4,828	4,797	2,702	770	137,258
Exchange adjustments	573	6,924	7	293	28	14	28	7,867
Acquisition of subsidiaries	–	–	–	–	–	–	–	–
Additions	27	–	5,053	86	712	1,562	388	7,828
Transfer from construction in progress	21	4,199	(4,220)	–	–	–	–	–
Disposals	(75)	–	–	(5)	(93)	(90)	–	(263)
At 31 December 2007 and 1 January 2008	10,030	125,688	952	5,202	5,444	4,188	1,186	152,690
Exchange adjustment	601	7,534	57	249	66	69	52	8,628
Acquisition of subsidiaries *(note 36)*	–	–	–	22,961	175	–	–	23,136
Additions	314	254	20,828	875	321	1,678	6	24,276
Transfer from construction in progress	47	4,578	(7,278)	2,653	–	–	–	–
Disposals	–	(1,737)	–	(20)	(522)	–	(509)	(2,788)
At 31 December 2008	10,992	136,317	14,559	31,920	5,484	5,935	735	205,942
Accumulated depreciation and impairment loss:								
At 1 January 2007	388	2,496	–	521	2,773	1,186	149	7,513
Exchange adjustment	35	376	–	52	9	7	6	485
Charge for the year	298	5,888	–	529	1,004	615	187	8,521
Written back on disposal	–	–	–	(4)	(68)	(40)	–	(112)
At 31 December 2007 and 1 January 2008	721	8,760	–	1,098	3,718	1,768	342	16,407
Exchange adjustment	47	570	–	72	12	12	10	723
Charge for the year	334	6,638	–	810	890	740	174	9,586
Written back on disposal	–	(617)	–	(10)	(112)	–	(54)	(793)
At 31 December 2008	1,102	15,351	–	1,970	4,508	2,520	472	25,923
Carrying amount								
At 31 December 2008	9,890	120,966	14,559	29,950	976	3,415	263	180,019
At 31 December 2007	9,309	116,928	952	4,104	1,726	2,420	844	136,283

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

No property, plant and equipment is pledged as security for bank loans of the Group for both years.

Included in the carrying amount of plant and equipment as at 31 December 2008 is motor vehicle with a carrying amount of HK$1,585,000 held under finance leases (2007: HK$213,000).

The Company

	Furniture and fixtures	**Motor Vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2007	3,296	686	3,982
Additions	896	903	1,799
Exchange adjustments	10	15	25
At 31 December 2007 and 1 January 2008	4,202	1,604	5,806
Additions	182	–	182
Disposal	(1,021)	–	(1,021)
Exchange adjustments	82	41	123
At 31 December 2008	3,445	1,645	5,090
Accumulated depreciation:			
At 1 January 2007	1,317	222	1,539
Charge for the year	946	183	1,129
Exchange adjustments	4	2	6
At 31 December 2007 and 1 January 2008	2,267	407	2,674
Charge for the year	809	271	1,080
Written back on disposal	(157)	–	(157)
Exchange adjustments	12	5	17
At 31 December 2008	2,931	683	3,614
Carrying amount:			
At 31 December 2008	514	962	1,476
At 31 December 2007	1,935	1,197	3,132

15. PREPAID LEASE PAYMENTS

The Group

	2008	2007
	HK$'000	*HK$'000*
Outside Hong Kong		
– Medium term lease	**436**	418
– Long lease	**1,290**	1,244
– Freehold	**798**	910
	2,524	2,572
Analysed for reporting purposes as		
– Current assets	**202**	184
– Non-current assets	**2,322**	2,388
	2,524	2,572

The leasehold land and land use rights represent prepaid operating lease payments in the PRC. No leasehold land and land use rights were pledged as securities for bank loans of the Group for both years.

16. OTHER INTANGIBLE ASSETS

The Group

	Production Sharing Contract ("PSC") *(notes (a) and (b)* *HK$'000*	**Right to use gas pipelines** *(note (c))* *HK$'000*	**Total** *HK$'000*
Cost:			
At 1 January 2007	–	6,699	6,699
Exchange adjustments	–	405	405
At 31 December 2007 and 1 January 2008	–	7,104	7,104
Acquisition of subsidiaries *(note 36)*	3,741,200	–	3,741,200
Exchange adjustments	(10,110)	426	(9,684)
At 31st December 2008	3,731,090	7,530	3,738,620
Accumulated amortisation:			
At 1 January 2007	–	199	199
Exchange adjustments	–	32	32
Charge for the year	–	513	513
At 31 December 2007 and 1 January 2008	–	744	744
Exchange adjustments	81	50	131
Charge for the year	10,283	560	10,843
At 31 December 2008	10,364	1,354	11,718
Carrying amount:			
At 31 December 2008	3,720,726	6,176	3,726,902
At 31 December 2007	–	6,360	6,360

16. OTHER INTANGIBLE ASSETS *(Continued)*

(a) Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008 as referred to note 36 to the financial statements, the Group has obtained a coalbed methane production sharing contract which was entered into between Canada Can-Elite Energy Limited ("Can-Elite") and China United Coalbed Methane Corporation Limited 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 31 March 2008, the PSC was approved from the Ministry of Commerce of the PRC in relation to (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.

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 had in 1996 granted an exclusive right to China United to explore, develop and produce coalbed methane in cooperation with overseas companies to exploit the coalbed methane resources in the contract area in a block covering approximately 568 square kilometres in the Su'nan Area of Auhui Province in the PRC under the PSC together with modification dated on 28 February 2009 (note 38(ii)) ("CBM Contract Area"). Pursuant to the PSC, Can-Elite is engaged as a foreign partner to provide advanced technology and assign its competent experts to explore, develop, produce and sell coalbed methane, liquid hydrocarbons or coalbed methane products extracted from the CBM Contract Area. China United shall, among others, facilitate local approvals and liaison with local and government bodies and market the coalbed methane and liquid hydrocarbons and sell the same to prospective buyers.

The PSC provides a term of thirty consecutive years, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which is set up by Can-Elite and China United, pursuant to the PSC, to oversee the operations in the CBM Contract Area.

Pursuant to the PSC and its modification dated on 28 February 2009, during the exploration period, Can-Elite shall (i) drill an aggregate of nine wells for exploration; and (ii) invest at least an aggregate amount of RMB28,400,000 (equivalent to approximately HK$31,910,000) 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.

16. OTHER INTANGIBLE ASSETS *(Continued)*

(a) *(Continued)*

Can-Elite and China United shall be reimbursed the costs 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 the proceeds will be deposited into a bank account jointly opened and operated by China United and Can-Elite, and distribute the profits between the parties in the proportion of their participating interests in the development costs, or any other marketing approaches and procedures to be 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 interest on the development costs incurred by Can-Elite and China United for each coalbed methane field within the CBM Contract Area shall be calculated at a fixed annual compound interest rate of 9% per annum.

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

Set out below is the summary of assets, liabilities and results of the CBM business recognised in the consolidated financial statements for the year ended 31 December 2008 in relation to the Group's interest under the PSC:

		2008	2007
		HK$'000	*HK$'000*
(i)	Results for the year (since acquisition date on 26 November 2008)		
	Revenue	**289**	–
	Expenses	**(478)**	–
	Amortisation charge of intangible assets (PSC)	**(10,283)**	–
	Deferred taxation – credit	**2,571**	–
(ii)	Assets and liabilities		
	Intangible assets (PSC) *(note 16)*	**3,720,726**	–
	CBM related plant and machinery	**22,695**	–
	Current liabilities	**(3,799)**	–
	Non-current liabilities	**(21,725)**	–
	Deferred tax liabilities *(note 31)*	**(930,216)**	–
(iii)	Capital commitments		
	Contracted but not provided for *(note 34(i))*	**20,972**	–

16. OTHER INTANGIBLE ASSETS *(Continued)*

(b) Impairment test on PSC

Management has appointed an independent valuer, Stirling Appraisals Limited, to perform a professional valuation, using the income approach (i.e. cash flow discounting) on the PSC attributable to the Group as at 31 December 2008. Management of the Group has determined that there is no impairment on the PSC as the recoverable amount of PSC, based on value-in-use calculations, as calculated in the valuation report is in excess of the aggregate carrying amount of PSC. The calculation is based on pre-tax cash flow projections prepared from financial budgets approved by management of the Group covering a 30 years period, a discount rate of 17.95% which is pre-tax and reflect specific risk. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the industry. The cash flow projections are prepared based on the expected gross margins determined based management's expectations for the market development.

Based on the above assessment, as at 31 December 2008, the management of the Group determined that there is no impairment of the PSC.

(c) The right to use gas pipelines is amortised on a straight-line basis over the useful life of 12 years.

17. GOODWILL

	2008	2007
	HK$'000	*HK$'000*
Cost:		
At 1 January	**159,058**	149,994
Exchange adjustments	**8,221**	9,064
Impairment loss recognised	**(167,279)**	–
At 31 December	**–**	159,058

Goodwill arising from the acquisition of Sanxia Gas (BVI) Investment Limited in 2006 is allocated to the Group's cash-generating unit ("CGU"), namely natural gas, identified according to business segment.

Management has appointed an independent valuer, Asset Appraisal Limited, to perform a professional valuation of the CGU. The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and extrapolated beyond the five-year using an estimated growth rate. The growth rate does not exceed the long-term average growth rate for the energy business.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next five years on an estimated growth pattern at growth rates of 10% and a discount rate of 25%.

Based on the assessment of impairment test, due to the decline in gas prices, adverse market conditions and unsatisfactory stagnant growth in the gas connection fees, an impairment loss of approximately HK$167,279,000 was recognised in the consolidated income statement for the year ended 31 December 2008.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Loan to a subsidiary	**2,253,999**	–
Interests in subsidiaries	**2,253,999**	–
Amounts due from subsidiaries	**578,861**	618,055
Less: Impairment loss	**(371,794)**	(345,804)
	207,067	272,251
Amounts due to subsidiaries	**(32,695)**	(39,065)

The loan to a subsidiary of HK$2,253,999,000 is unsecured and interest free and in substance forms part of the Company's investment in a subsidiary as quasi-equity contributions for the acquisition of Merit First Investments Limited (see note (36)). The amounts due from and to subsidiaries are unsecured, interest free and repayable on demand.

An allowance for amounts due from subsidiaries of HK$371,794,000 (2007: HK$345,804,000) was recognised as at 31 December 2008 because the related recoverable amounts of the balance due from subsidiaries were estimated to be less than their carrying amounts.

Particulars of the principal subsidiaries are as follows:

		Proportion of ownership interest				
Name	**Place of incorporation/ operation**	**Group's effective holding**	**Held by the Company**	**Held by a subsidiary**	**Issued and paid up capital**	**Principal activity**
Barraza Company Limited	Hong Kong	100%	–	100%	HK$2	Provision of secretarial services
重慶市雲陽縣天然氣有限責任公司 (Chongqing Yunyang Natural Gas Company Limited) *(note i)*	PRC	100%	–	100%	RMB5,000,000	Distribution of natural gas
Ever Double Investments Limited	British Virgin Islands/Hong Kong	100%	100%	–	US$1	Investment holding

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Proportion of ownership interest: Group's effective holding	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activity
奉節縣三峽風天然氣有限責任公司 (Fengjie Three Gorges Wind Natural Gas Company Limited) *(note i)*	PRC	100%	–	100%	RMB6,000,000	Distribution of natural gas
Hong Kong Sanxia Gas Investment Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
China Rich Coalhed Methane Group Limited	Hong Kong	100%	100%	–	HK$1	Investment holding
Marvel Time Holdings Limited	British Virgin Islands	100%	100%	–	US$1	Investment holding
Sanxia Gas (BVI) Investment Limited	British Virgin Islands	100%	–	100%	US$1	Investment holding
Springdale Investment Company Limited	Hong Kong	100%	–	100%	HK$100,000	Property investment
Strong Way International Limited	Hong Kong	60%	–	60%	HK$1,000,000	Electronic components trading
U-Cyber Investment Holdings (China) Limited	Hong Kong	100%	–	100%	HK$20	Investment holding
U-Cyber Property Development Company Limited	Hong Kong	100%	–	100%	HK$2	Investment holding
Universal Cyber Technology Holdings Limited	Hong Kong	100%	100%	–	HK$2	Property investment
Well Peace Investment Limited	Hong Kong	100%	100%	–	HK$2	Investment holding
巫山縣三峽風天然氣有限責任公司 (Wushan Three Gorges Wind Natural Gas Company Limited) *(note i)*	PRC	100%	–	100%	RMB10,000,000	Distribution of natural gas
雲陽縣三峽壓縮天然氣有限公司 (Yunyang Three Gorges Compressed Natural Gas Company Limited) *(note i)*	PRC	100%	–	100%	RMB2,900,000	Distribution of compressed natural gas
National Rich Investments Limited	British Virgin Islands	100%	100%	–	US$1	Investment holding
Merit First Investments Limited	British Virgin Islands	100%	–	100%	US$1	Investment holding

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Proportion of ownership interest: Group's effective holding	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activity
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, development and exploitation

Note:

(i) These companies are wholly-foreign owned enterprises established in the PRC.

19. INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**50**	50	**–**	–
Less: Impairment loss	**(50)**	(50)	**–**	–
	–	–	**–**	–

The associate did not have any profit or loss for the year or reserve as at 31 December 2008.

Particulars of the associate are as follows:

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of attributable equity interest 2008	2007	Principal activity
Zhong Hang Yu (H.K.) Limited	Hong Kong	HK$100,000	**50%**	50%	Inactive

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Club debentures	**2,771**	2,771	**2,771**	2,771

21. INVENTORIES

The Group

	2008	2007
	HK$'000	*HK$'000*
Finished goods	**110**	134
Spare parts	**915**	788
Construction materials	**1,873**	1,319
	2,898	2,241

22. TRADE AND OTHER RECEIVABLES

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**5,849**	12,462	**–**	–
Provision for impairment	**(168)**	(133)	**–**	–
Trade receivables, net	**5,681**	12,329	**–**	–
Other receivables	**6,788**	6,637	**5,820**	1,281
Due from a third party financial advisor – *note (d)*				
– Deposit	**–**	30,000	**–**	30,000
– Interest on deposit	**–**	321	**–**	321
Deposits and prepayments	**4,413**	6,737	**1,525**	3,012
	11,201	43,695	**7,345**	34,614
Provisions for impairment	**–**	(5,620)	**–**	–
	11,201	38,075	**7,345**	34,614
	16,882	50,404	**7,345**	34,614

As of 31 December 2008, trade receivables of HK$168,000 (2007: HK$133,000) and other receivables of HK$ nil (2007: HK$4,774,000) were impaired and fully provided for. The individually impaired receivables mainly relate to three independent parties, which are in unexpected difficult economic situations. The other classes within receivables and prepayments do not contain impaired assets.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) The ageing analysis of the trade receivables of the Group, based on the dates of the invoices net of provision for impairment, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Current – within 1 month	**4,567**	6,109
More than 1 month but within 3 months	**937**	6,003
More than 3 months but within 6 months	**17**	213
More than 6 months	**160**	4
	5,681	12,329

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

(b) **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:

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**133**	137
Impairment loss recognised	**35**	–
Amount recovered	**–**	(4)
At 31 December	**168**	133

As at 31 December 2008, the Group's trade receivables of HK$168,000 (2007: HK$ 133,000) 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$35,000 (2007: HK$ nil) were recognised. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) 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.

(d) On 13 April 2007, the Company entered into an agreement with a third party financial advisor for the provision of certain investment services. Pursuant to the agreement, HK$30 million was placed as a deposit. The deposit was unsecured, interest bearing at rate equivalent to savings rate at a designated bank account and was repayable within six months from date of agreement. The deposit, together with its accrued interest, was fully refunded to the Group during the year.

(e) Impairment of other receivables

Impairment losses in respect of other receivable 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 loans receivable directly.

The movements in the allowance for doubtful debts during the year are as follows:

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**–**	–
Impairment loss recognised	**–**	5,620
At 31 December	**–**	5,620

23. AMOUNTS DUE FROM RELATED PARTIES

	The Group		**The Company**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Chongqing Three Gorges Natural Gas (Group) Limited *(note (a) and (b))*	**11,529**	10,877	**–**	–
Ms. Tan Yinan *(note (a) and (b))*	**504**	651	**–**	289
Ms. Tan Yao *(note (a) and (b))*	**384**	475	**–**	–
	12,417	12,003	**–**	289

Note: (a) The above entity is beneficially owned by Mr. Tan Chuanrong, a director of the gas operating subsidiaries in Mainland China, and appointed as a director of the Company. Ms. Tan Yinan and Ms. Tan Yao are affiliates of Mr. Tan Chuanrong. The amounts receivable are unsecured, interest free and repayable on demand.

(b) Pursuant to a debt restructuring arrangement made between these related parties and Proud City Investments Limited, which holds the promissory note with par value of HK$240 million issued by the Company (see note 30(b) below), Proud City Investments Limited has taken up all these debts which, as agreed between the Company and Proud City Investments Limited, shall be off-set by the part of the promissory note upon its maturity.

24. CASH AND BANK BALANCES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term deposits	**2,274**	2,200	**–**	–
Cash at bank and in hand	**36,583**	39,311	**770**	8,762
	38,857	41,511	**770**	8,762

Cash and bank balances include short-term deposits amounting to HK$2,274,000 (2007: HK$2,200,000), with effective interest of 3.4% (2007: 3.6%) per annum and average maturity of about 19 days (2007: 17 days). The short-term bank deposits have been pledged as securities for banking facilities granted to the Group.

25. SHARE CAPITAL

	Number of ordinary shares of HK$0.25 each	Nominal value of ordinary shares
		HK$'000
Authorised:		
At 1 January 2007	4,000,000,000	1,000,000
Increase in authorised share capital *(note a)*	6,000,000,000	1,500,000
At 31 December 2007 and 1 January 2008	10,000,000,000	2,500,000
Increase in authorised share capital *(note a)*	10,000,000,000	2,500,000
At 31 December 2008	20,000,000,000	5,000,000
Issued and fully paid:		
At 1 January 2007	1,058,914,391	264,729
Issue of new shares for cash *(note b)*	200,000,000	50,000
Issue of new shares upon conversion of convertible bonds *(note 29(a))*	613,420,000	153,355
Share options exercised	28,100,000	7,025
At 31 December 2007 and 1 January 2008	1,900,434,391	475,109
Issue of new shares for cash *(note c)*	250,000,000	62,500
Acquisition of subsidiaries *(note b)*	800,000,000	200,000
At 31 December 2008	2,950,434,391	737,609

25. SHARE CAPITAL *(Continued)*

Notes:

(a) By an ordinary resolution passed by the shareholders on 12 September 2007 and 19 November 2008, the authorised share capital of the Company was increased from HK$1,000,000,000 and HK$2,500,000,000 to HK$1,500,000,000 and HK$5,000,000,000, by creation of 6,000,000,000 and 10,000,000,000 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) On 16 June 2008, pursuant to a subscription agreement dated 6 June 2008, the Company issued a total of 250,000,000 ordinary shares of HK$0.25 each at a price of HK$0.25 per share to Shine Channel Corporation Limited.

(d) The Company issued 800,000,000 ordinary shares (the "Consideration Shares") at an issue price of HK$0.25 each on 26 November 2008 as part of the purchase consideration for the acquisition of the entire issued share capital of Merit First Investments Limited.

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

26. RESERVES

The Group

	Share Premium	Capital redemption reserve	Capital reserve	Share option reserve	Investment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	59,738	5,318	1,805	9,382	949	5,766	1,473	(212,656)	23	(128,202)
Exchange differences on translation of subsidiaries outside Hong Kong	–	–	–	–	–	16,133	90	–	–	16,223
Issue of new shares for cash, net of expenses	8,820	–	–	–	–	–	–	–	–	8,820
Conversion of convertible bonds to shares	130,574	–	–	–	–	–	–	–	–	130,574
Issue of shares upon exercise of share options	2,170	–	–	(1,884)	–	–	–	–	–	286
Share options at fair value	–	–	–	23,880	–	–	–	–	–	23,880
Share options forfeited	–	–	–	(130)	–	–	–	130	–	–
Loss for the year	–	–	–	–	–	–	–	(201,547)	(23)	(201,570)
Transfer to statutory reserve	–	–	–	–	–	–	2,169	(2,169)	–	–
At 31 December 2007 and at 1 January 2008	201,302	5,318	1,805	31,248	949	21,899	3,732	(416,242)	–	(149,989)
Exchange differences on translation of subsidiaries outside Hong Kong	**–**	**–**	**–**	**–**	**–**	**7,941**	**228**	**–**	**–**	**8,169**
Acquisition of subsidiaries *(note 36)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(168,000)**	**–**	**(168,000)**
Share options forfeited	**–**	**–**	**–**	**(29,477)**	**–**	**–**	**–**	**29,477**	**–**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**310,439**	**–**	**310,439**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**518**	**(518)**	**–**	**–**
At 31 December 2008	**201,302**	**5,318**	**1,805**	**1,771**	**949**	**29,840**	**4,478**	**(244,844)**	**–**	**619**

26. RESERVES *(Continued)*

The Company

	Share premium	Capital redemption	Share option reserve	Investment reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	59,738	5,318	9,382	949	(23)	(236,041)	(160,677)
Exchange differences on translation of foreign operations	–	–	–	–	(218)	–	(218)
Issue of new shares for cash, net of expenses	8,820	–	–	–	–	–	8,820
Conversion of convertible bonds for shares	130,574	–	–	–	–	–	130,574
Issue of shares upon exercise of share options	2,170	–	(1,884)	–	–	–	286
Share options at fair value	–	–	23,880	–	–	–	23,880
Share options forfeited	–	–	(130)	–	–	130	–
Loss for the year	–	–	–	–	–	(198,364)	(198,364)
At 31 December 2007 and 1 January 2008	**201,302**	**5,318**	**31,248**	**949**	**(241)**	**(434,275)**	**(195,699)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(1,202)**	**–**	**(1,202)**
Acquisition of subsidiaries *(note 36)*	**–**	**–**	**–**	**–**	**–**	**(168,000)**	**(168,000)**
Share options forfeited	**–**	**–**	**(29,477)**	**–**	**–**	**29,477**	**–**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(142,727)**	**(142,727)**
At 31 December 2008	**201,302**	**5,318**	**1,771**	**949**	**(1,443)**	**(715,525)**	**(507,628)**

26. RESERVES *(Continued)*

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) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments.

(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 2(f).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies in note 2(u).

(v) Statutory reserve

Transfers of 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.

(vi) Distributable reserves

As at 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was nil (2007: nil).

26. RESERVES *(Continued)*

Nature and purpose of reserves *(Continued)*

(vii) 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 the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

	The Group	
	2008	2007
	HK$'000	*HK$'000*
Bank loans	**26,004**	36,801
Other borrowings	**45,524**	857
Finance lease obligations	**958**	97
Convertible bonds	**2,024,305**	–
Promissory note	**160,154**	–
Less: Cash and cash equivalents	**(38,857)**	(41,511)
Net debt	**2,218,088**	(3,756)
Total equity	**738,228**	325,120
Adjusted capital	**2,956,316**	321,364
Net debt-to-adjusted capital	**75.03%**	N/A

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

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") approved by the shareholders on 29 December 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 number of share options outstanding during the year are as follows:

	Number of share options	
	2008	2007
At beginning of the year	**187,210,000**	93,630,000
Share options granted	**–**	137,860,000
Share options forfeited *(note a)*	**(173,480,000)**	(16,180,000)
Share options exercised	**–**	(28,100,000)
At end of the year *(note b)*	**13,730,000**	187,210,000

(a) Share options forfeited

Exercisable period	**Exercise price** *HK$*	**Number of share options**
1 April 2007 to 29 February 2012	0.2620	3,230,000
19 August 2007 to 18 July 2012	0.4550	127,230,000
1 July 2006 to 31 May 2011	0.2900	43,020,000
		173,480,000

27. SHARE OPTION SCHEME *(Continued)*

(b) Outstanding options

Exercisable period	**Exercise price** *HK$*	**Number of share options**
Directors		
8 April 2006 to 7 March 2011	0.2648	1,830,000
Employees		
27 October 2005 to 26 September 2010	0.2500	800,000
1 July 2006 to 31 May 2011	0.2900	8,500,000
1 April 2007 to 29 February 2012	0.2620	2,600,000
		13,730,000

(c) Fair value of options and assumptions

The fair value of the options granted and vested during the year ended 31 December 2007 was HK$23,880,000, as determined using the Black-Scholes valuation model, at their respective dates of grant. The significant inputs into the model were share price of HK$0.255 and HK$0.445 at the respective date of granting the options, respective exercise price of HK$0.262 and HK$0.455 per share, expected life of the options of 2 to 3 years, expected dividend paid out rate of zero and annual risk-free interest rate of 3.93% to 4.27%. 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. No share options were granted and exercised during the year.

28. BORROWINGS

The Group

	2008	2007
	HK$'000	*HK$'000*
Bank loans	**26,004**	36,801
Other borrowings, unsecured *(note (a))*	**45,524**	857
Finance lease obligations	**958**	97
	72,486	37,755
Current portion included in current liabilities		
Bank loans	**20,351**	19,734
Other borrowings, unsecured	**23,799**	857
Finance lease obligations	**187**	97
	44,337	20,688
Non-current liabilities		
Bank loans	**5,653**	17,067
Finance lease obligations	**771**	–
Other borrowings, unsecured	**21,725**	–
	28,149	17,067
	72,486	37,755

The Company

	2008	2007
Current portion included in current liabilities		
Other borrowings, unsecured	**20,000**	–

(a) Included in the balance is HK$20,000,000 payable to Proud City Investments Limited, a substantial shareholder of the Company, which is unsecured, interest free and due within 2009, of which, HK$6,600,000 was repaid after the balance sheet date. The remaining balance is HK$25,524,000 from an independent third party which carries interest at 9% per annum and unsecured.

28. BORROWINGS *(Continued)*

(b) The maturity of the borrowings of the Group is as follows:

	Bank loans	Other borrowings	Finance lease: Present value	Finance lease: Minimum lease payment
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2008				
2009	**20,351**	**23,799**	**187**	**771**
2010	**5,653**	**3,799**	**–**	**–**
2011	**–**	**3,799**	**–**	**–**
2012	**–**	**3,799**	**–**	**–**
2013	**–**	**3,799**	**–**	**–**
2014	**–**	**3,799**	**–**	**–**
2015	**–**	**2,730**	**–**	**–**
	26,004	**45,524**	**187**	**771**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007				
2008	19,734	857	97	106
2009	11,734	–	–	–
2010	5,333	–	–	–
	36,801	857	97	106

Bank loans amounting to HK$22,612,000 (2007: HK$33,067,000) is secured by the right to collect revenue on sales of natural gas of the gas operating subsidiaries.

29. CONVERTIBLE BONDS

(a) On 22 June 2007, the Group issued convertible bonds with an aggregate principal amount of HK$178,356,000 (the "Bonds") with a term of five years. The Bonds do not carry interest and are secured by the shares of Sanxia Gas. Holders of the Bonds have the option to convert the Bonds into shares of the Company of HK$0.25 each at a conversion price of HK$0.25 per share.

As the functional currency of the Group is Renminbi, the conversion option of the Bonds denominated in Hong Kong dollar will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss.

The fair value of the embedded derivative portion of the Bonds is calculated using the binomial model with the major inputs as follows:

	22 June 2007	26 June 2007	30 June 2007	3 July 2007	4 July 2007	16 July 2007	14 August 2007	14 September 2007
Stock price	HK$0.490	HK$0.495	HK$0.455	HK$0.45	HK$0.455	HK$0.425	HK$0.380	HK$0.330
Exercise price	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25
Volatility	78.91%	78.91%	78.93%	78.93%	78.53%	77.99%	77.99%	79.95%
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%
Risk free rate	4.665%	4.551%	4.620%	4.550%	4.585%	4.580%	4.321%	3.966%

29. CONVERTIBLE BONDS *(Continued)*

(a) *(Continued)*

The liability portion is the residual amount after recognising the embedded derivative and subsequently carried at amortised cost. As at 31 December 2007, the Bonds were fully converted into 613,420,000 shares of the Company at a conversion price of HK$0.25 per share. The movement of the liability component and embedded derivatives of the convertible bonds for the year is as follows:

		Convertible bonds			
	Promissory notes	**Liability portion**	**Embedded derivatives portion**	**Total**	**Bondholder conversion**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2006	(148,900)	–	–	–	–
Interest accrued	(4,839)	–	–	–	–
Settlement of interest	530	–	–	–	–
Convertible bonds issued on 22 June 2007	153,209	(178,356)	–	(178,356)	–
Redemption on 22 June 2007	–	25,000	–	25,000	–
Recognition of fair value on 22 June 2007	–	62,419	(209,641)	(147,222)	–
Interest accrued	–	(324)	–	(324)	–
Changes in fair value	–	–	16,971	16,971	–
Conversion into new shares	–	91,260	192,669	283,929	(283,929)
Waiver of convertible bonds by holders	–	1	1	2	–
At 31 December 2007	–	–	–	–	

29. CONVERTIBLE BONDS *(Continued)*

(a) *(Continued)*

The aggregate effect of the issue of convertible bonds to the income statement for the year is as follow:

	2007
	HK$'000
Loss on extinguishment of promissory notes	
Carrying amount of promissory notes	153,209
Fair value of convertible bonds on the date of issue	(178,356)
Fair value change on embedded derivatives portion of convertible bonds	(147,222)
	(172,369)
Fair value changes on embedded financial derivatives	16,971
Waiver of convertible bonds by holders	2
	16,973

(b) On 26 November 2008, the Company issued convertible bonds with an aggregate principle amount of HK$2,000,000,000 with a term of five years in connection with the acquisition of 100% equity interest in Merit First Investments Limited. The bonds carry zero coupon rate. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 per conversion share at any time during the period commencing from the date of issue of convertible bonds. At 31 December 2008, the holder of these convertible bonds is Proud City Investments Limited, a substantial shareholder of the Company.

As the functional currency of the Group is Renminbi, the conversion option of the convertible bonds denominated in Hong Kong dollar will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss.

The fair value of the liability portion and embedded derivatives portion of the convertible bonds were determined as of the date of issue by an independent professional valuer, Asset Appraisal Limited. The fair value of the convertible bonds as at the date of issue was HK$2,000,000,000 comprising a liability portion of HK$1,875,030,000 and an embedded derivative portion of HK$124,970,000. As at 31 December 2008, the fair value of the embedded derivatives portion of the convertible bonds was revalued by an independent professional valuer, Asset Appraisal Limited, at HK$146,953,000. The increase in fair value of the embedded derivatives of HK$21,983,000 has been recognised and charged to in the consolidated income statement for the year.

29. CONVERTIBLE BONDS *(Continued)*

(b) *(Continued)*

The movements of the convertible bonds are as follows:

	Embedded derivatives portion *HK$'000*	Liability portion *HK$'000*	Total *HK$'000*
Fair value of convertible bonds on the date of issue	124,970	1,875,030	2,000,000
Interest amortised charged to income statement	–	2,321	2,321
Increase in fair value charged to income statement	21,983	–	21,983
Carrying amount of convertible bonds as at 31 December 2008	146,953	1,877,351	2,024,304

The fair value of the embedded derivatives portion of the convertible bonds is determined using the Binominal Options Pricing Model, while the fair value of the liability component is calculated using cash flows discounted at interest rate 1.29%. Accrued interest on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 1.29% to the liability portion.

30. PROMISSORY NOTES

(a) On 7 August 2006, the Group issued seven promissory notes at a nominal amount of HK$176,875,000 as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (BVI) Limited ("Sanxia Gas"). The promissory notes carried interest at 1.5% per annum and were secured by the shares of Sanxia Gas. The carrying value of the promissory notes at 31 December 2006 was calculated at a discount rate of 7%. The promissory notes were fully settled on 22 June 2007 with the issue of convertible bonds (see note 29 (a)).

(b) On 26 November 2008, the Company issued HK$240,000,000 unsecured redeemable promissory note in connection with the acquisition of the 100% equity interest in Merit First Investments Limited (see note (36)). The promissory note is repayable in one lump sum on maturity of 1.5 years. The promissory note bears zero coupon rate. The Company has the right to redeem the promissory note prior to the maturity date by serving a written notice to the note-holder which is, at 31 December 2008, Proud City Investments Limited, a substantial shareholder of the Company. The fair value of promissory note is approximately HK$155,457,000 (see note 36), as at the issue date, based on the independent valuation performed by Asset Appraisal Limited, a firm of professional valuers. The promissory note is carried at amortised cost using the effective interest rate method. The effective interest rate of the promissory note was determined at 33% per annum at the issue date on 26 November 2008, with reference to the similar instruments in the market. The promissory note is classified as non-current liabilities and carried at amortised cost until extinguishment on redemption. Taking into account the accrued effective interest of HK$4,697,000, the carrying amount of promissory note amounted to HK$160,154,000 as at 31 December 2008.

31. DEFERRED TAXATION

The Group

	2008	2007
	HK$'000	*HK$'000*
At 1 January	**5,506**	6,946
Acquisition of subsidiaries *(note (36))*	**935,300**	–
Credit to income statement	**(3,223)**	(1,791)
Exchange adjustments	**(2,223)**	351
At 31 December	**935,360**	5,506

The movements in deferred taxation liabilities prior to offsetting of balances within same jurisdiction during the year are as follows:

	Temporary differences	**Fair value adjustment on acquisition**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2007	6,394	552	6,946
Acquisition of subsidiaries			
Credit to income statement	(1,791)	–	(1,791)
Exchange adjustments	318	33	351
At 31 December 2007 and 1 January 2008	4,921	585	5,506
Effect of fair value gain on the PSC upon acquisition of subsidiaries *(note (36))*	–	935,300	935,300
Credit to income statement	(652)	(2,571)	(3,223)
Exchange adjustments	290	(2,513)	(2,223)
At 31 December 2008	4,559	930,801	935,360

Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to profits earned by the Company's PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets of the Group and the Company amounting to HK$16,086,000 (2007: HK$8,566,000) and HK$13,918,000 (2007: HK$3,490,000), 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	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors	**12,916**	23,206	**–**	–
Other creditors	**31,989**	15,677	**1,458**	1,186
Accrued operating expenses	**4,942**	3,650	**3,437**	2,158
	49,847	42,533	**4,895**	3,344

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

	2008	2007
	HK$'000	*HK$'000*
Current – within 1 month	**7,831**	7,013
More than 1 month but within 3 months	**2,891**	7,538
More than 3 months but within 3 months	**647**	7,152
More than 6 months	**1,547**	1,503
	12,916	23,206

33. AMOUNTS DUE TO RELATED PARTIES

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Directors				
Mr. Tong Nai Kan	**1,399**	–	**1,399**	–
Mr. Tan Chuanrong	**380**	1,740	**–**	–
	1,779	1,740	**1,399**	–

All amounts payable are unsecured, interest free and have no fixed repayment terms.

Mr. Tan Chuanrong is a Director of the Company and Chongqing Three Gorges Natural Gas (Group) Limited which is beneficially owned by Mr. Tan Chuanrong.

34. COMMITMENTS

(i) Capital commitments

Capital commitments in respect of the production sharing contract as at 31 December 2008 not provided for in the financial statements were as follows:

	2008	2007
	HK$'000	*HK$'000*
Authorised and contracted for		
– Production sharing contract	**17,626**	–
Contracted but not provided for		
– Production sharing contract	**20,972**	–
– Natural gas	**1,830**	–
	40,428	–

(ii) Operating lease commitments

At 31 December 2008, the total minimum lease payments of the Group in respect of land and buildings under non-cancellable operating leases are payable as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**6,493**	3,615
After I year but within 5 years	**3,865**	1,977
After 5 years	**–**	–
	10,358	5,592

35. CONTINGENT LIABILITIES

The Company has provided guarantees in respect of finance lease obligations granted to a subsidiary amounting to HK$nil (2007: HK$97,000).

36. BUSINESS COMBINATION

On 26 November 2008, the Group acquired 100% of the issued share capital of Merit First Investments Limited ("Merit First") for a consideration of HK$2,500,000,000. The consideration was satisfied by (i) HK$60,000,000 in cash; (ii) 800,000,000 new shares of HK$0.25 each; (iii) HK$2,000,000,000 convertible bonds and (iv) HK$240,000,000 promissory note of the Company. This acquisition has been accounted for using the purchase method. The amount of discount on acquisition was approximately HK$545,470,000 (see below).

Through the acquisition of Merit First, the Group has obtained 100% equity interest in Can-Elite, which is engaged in the exploration and exploitation of CBM in Auhui, the PRC, (collectively referred to as the "Merit First Group"). At the acquisition date, the CBM business has been in operation jointly by Can-Elite and China United with 7 wells extracting CBM products supplied to an independent third party customer near the CBM Contract Area. Further details are set out in the Company's circular dated 31 October 2008.

The directors of the Company are of the opinion that the acquiree's assets and liabilities approximate their fair values. The net assets acquired in the transaction and the discount of acquisition arising are as follows:

	Acquirees' carrying amount before business combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Intangible assets – PSC *(note 16)*	–	3,741,200	3,741,200
Property, plant and equipment	23,136	–	23,136
Debtors and prepayments	276	–	276
Cash and bank balances	46	–	46
Other payables	(29,230)	–	(29,230)
Deferred tax liabilities *(note 31)*	–	(935,300)	(935,300)
Discount on acquisition of subsidiaries	–	–	(545,470)
	(5,772)	2,805,900	
Total consideration			2,254,658
Total consideration satisfied by:			
– Cash paid			60,000
– Shares of the Company – at fair value			32,000
– Promissory note – at fair value *(note 30(b))*			155,457
– Convertible bonds- at fair value *(note 29)*			2,000,000
– Direct expenses relating to the acquisition			7,201
			2,254,658

36. BUSINESS COMBINATION *(Continued)*

	HK$'000
Net cash outflow arising on acquisition:	
Consideration paid in cash	60,000
Cash and bank balances acquired	(46)
Direct expenses relating to the acquisition	7,201
	67,155

An independent valuation of the PSC has been performed by BMI Appraisals Limited, a firm of professional qualified valuers, to determine the fair value of the PSC on 26 November 2008. That calculation uses cash flow projections during the useful life of the PSC i.e 30 years and a discount rate of 17.95%. The key assumptions for the value in use calculation relate to the estimated gas reserves and the estimated prices of CBM. The fair value of HK$3,741,200,000 is estimated for PSC on 26 November 2006 on the basis of the valuation by BMI Appraisals Limited and a technical report on the assessment of CBM reserves issued by Netherland, Sewell & Associates, Inc. Both BMI Appraisals Limited and Netherland, Sewell & Associates Inc. are independent of the Group and its management.

The fair value of the 800,000,000 ordinary shares of the Company issued as part of the consideration was determined with reference to the closing market share price of HK$0.04 each of the Company' shares at the acquisition date amounted to HK$32,000,000 of which HK$200,000,000 was credited to the share capital and HK$168,000,000 was debited to accumulated losses.

Since the acquisition of Merit First Group on 26 November 2008, Merit First Group contributed one month's turnover and results of approximately HK$289,000 to the Group's turnover and a loss of approximately HK$7,902,000 for the year ended 31 December 2008.

Had the acquisition taken place at 1 January 2008, the turnover and the profit of the Group for the year ended 31 December 2008 would have been approximately HK$140,926,000 and approximately HK$240,255,000, respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have achieved had the acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

In the opinion of the directors of the Company, the discount on acquisition of the CBM business of Merit First Group represented an intended discount provided by the relevant PRC authorities to attract foreign investor to engage in encouraged foreign investment projects, i.e. introduction of the foreign investments, advanced technology and experiences to the PRC clean energy business, which was previously operated by state-owned enterprises, lead to the improvement of the corporate governance standard and to increase the operational effectiveness.

37. MATERIAL RELATED PARTY TRANSACTIONS

Other than the year-end balances disclosed in notes 23, 28(a), 29(b), 30(b), and 33 to the financial statements, the Group had the following material related party transactions.

Key management personnel compensation

	2008	2007
	HK$'000	*HK$'000*
Short-term employees benefits	**7,734**	7,412
Post-employment benefits	**36**	47
	7,770	7,459

Total remuneration is included in "staff costs" (see note 9).

38. POST BALANCE SHEET EVENTS

(i) On 5 February 2009, the Company issued an announcement about a proposal of capital reorganisation, which will involve (i) share consolidation by consolidating every 25 shares of HK$0.25 each into 1 consolidated share of HK$0.01 each; (ii) capital reduction by reducing the nominal value of the then issued consolidated shares from HK$0.25 to HK$0.01 each; (iii) subdivision by subdividing each authorised but unissued share capital of the Company into 25 new shares of HK$0.01 each; as a result of the capital reorganisation; the authorised share capital will reduce from HK$5,000,000,000 to HK$200,000,000 and the issued share capital was approximately HK$29,504,000. The credit amount arising from the capital reduction would be applied to a distribution reserve of the Company where it will be utilised to eliminate the accumulated losses of the Company as at the effective date.

The capital reorganisation has not yet been completed at the date of approval of the financial statements.

(ii) On 28 February 2009, Can-Elite and China United entered into a modification agreement, which forms an integral part of PSC as referred to in note 16(a), pursuant to which (a) the contract area under the PSC has been increased from 356.802 to 567.843 square kilometers by an additional area of 211.041 square kilometers adjacent to the original contract area, at zero costs; and (b) during the exploration period, number of drills to be conducted by Can-Elite under the PSC has been increased from 6 to 9 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.

This modification agreement to the PSC was approved by the Ministry of Commerce of the PRC on 16 March 2009.

FINANCIAL SUMMARY

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Revenues	**139,439**	135,113	104,864	76,692	143,930
Loss before taxation	**308,659**	(202,894)	(27,678)	(33,990)	(37,060)
Taxation credit/(charge)	**1,780**	1,324	(530)	453	(2,923)
Loss for the year	**310,439**	(201,570)	(28,208)	(33,537)	(39,983)
Attributable to:					
Equity holders	**310,439**	(201,547)	(28,208)	(33,537)	(39,983)
Minority interests	**–**	(23)	–	–	–
	310,439	(201,570)	(28,208)	(33,537)	(39,983)
Assets and liabilities					
Total assets	**3,983,270**	413,203	387,607	31,643	79,368
Total liabilities	**3,245,042**	(88,083)	(251,080)	(43,243)	(48,152)
Total equity	**738,228**	325,120	136,527	(11,600)	31,216