Annual Report
2010

New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Tong Nai Kan *(Chairman)*
Cheng Wai Keung
Lo Tai In
Pang Yuen Shan, Christina
Tam Tak Wah
Tsang Ching Man

Independent Non-Executive Directors

Chan Tsz Kit
Wang Li
Wong Kwok Hong Simon

AUDIT COMMITTEE

Chan Tsz Kit *(Chairman)*
Wang Li
Wong Kwok Hong Simon

REMUNERATION COMMITTEE

Wong Kwok Hong Simon *(Chairman)*
Chan Tsz Kit
Wang Li

COMPANY SECRETARY

Tsang Ching Man

PRINCIPAL BANKERS

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

SOLICITORS

D.S. Cheung & Co., Solicitors

AUDITOR

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

REGISTERED OFFICE

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

SHARE REGISTRARS

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

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

COMPANY WEBSITE

www.newsmartgroup.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of New Smart Energy Group Limited (the "Company") will be held at The Lily Room of Ramada Hong Kong Hotel at 3rd Floor, 308 Des Voeux Road West, Hong Kong on Tuesday, 17 May 2011 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditor for the year ended 31 December 2010.

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

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

ORDINARY RESOLUTIONS

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

(A) **"THAT**:

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

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

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

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

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

(d) for the purpose of this resolution:

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

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

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

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

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

(B) **"THAT**:

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

NOTICE OF ANNUAL GENERAL MEETING

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

(c) for the purpose of this resolution:

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

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

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

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

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

By Order of the Board
Tsang Ching Man
Company Secretary

Hong Kong, 12 April 2011

NOTICE OF ANNUAL GENERAL MEETING

Notes:

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

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

3. With reference to resolution 2 set out in this notice, Mr. Cheng Wai Keung is due to retire at the Meeting and, being eligible, offer himself for re-election pursuant to Article 110 of the Company's Articles of Association. Mr. Lo Tai In, Ms. Pang Yuen Shan, Christina, and Ms. Tsang Ching Man are due to retire at the Meeting and, being eligible, offer themselves for re-election pursuant to Articles 104 and 105 of the Company's Articles of Association. Neither Mr. Cheng, Mr. Lo, Ms. Pang nor Ms. Tsang has entered into any service contract with the Company. The details of the re-elected Directors are set out in a circular which will be sent to members together with the Company's 2010 Annual Report.

4. With reference to resolutions 4(A) to 4(C) set out in this notice, the Directors wish to state that they have no immediate plans to repurchase any existing Shares or to issue any new Shares pursuant to the relevant mandate. An explanatory statement containing further details regarding the general mandate to repurchase Shares as referred to in resolution 4(B) is set out in a circular which will be sent to members together with the Company's 2010 Annual Report.

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors ("the Board") of New Smart Energy Group Limited ("New Smart Energy" or "the Group"), I hereby present the Annual Report for the financial year ended 31 December 2010.

BUSINESS REVIEW

Coalbed Methane ("CBM") Business

The Group, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("Can-Elite") runs the CBM business in Anhui Province, the principal business activities of which are coalbed methane exploration, development and production. Pursuant to the Production Sharing Contract entered into between China United Coalbed Methane Corporation Limited ("China United") and Can-Elite (the "PSC"), Can-Elite can exploit the coalbed methane resources in a total exploration area of approximately 356.80 square kilometers, which was subsequently expanded to 567.843 square kilometers, located in Su'nan area, Anhui Province (the "Contract Area") in the PRC, for a term of 30 years from the first day of the month following the month in which Can-Elite received notification from China United for the approval of the PSC by the Ministry of Commerce of the PRC, i.e. 1 April, 2008. The profit sharing ratio between China United and Can-Elite is approximately 30:70.

The products of CBM and liquid hydrocarbons will be sold within Anhui Province for industrial and household use. This CBM business in Anhui Province allows the Group to share a slice of this lucrative market of the clean energy sector in Mainland China. The exploration of the coalbed methane will take years to reach the normal production capacity of the existing resources.

As the progress of exploration was still in its early stage, the CBM business contributed about HK$2,458,000 of the turnover in this year. (2009: HKD2,369,000).

As at 31 December 2010, the Group was able to meet the prior plan worked out by the joint management committee comprising representatives from China United and Can-Elite (the "Joint Management Committee"), and there are now totally 12 wells at the sites, of which 7 wells are in production and 5 wells are under construction. With the effort of the on-going progress in exploration and further investment in CBM business, the returns will be captured in the coming years.

Electronic Components Business

The Group, through its non-wholly-owned subsidiary, Strong Way International Limited, operates the design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the South East Asian Region. As the market environment has not been fully recovered in 2010 after the financial tsunami in late 2008, the electronic components business recorded a loss of about HK$1.1 million for the year, compared to a loss of about HK$2.1 million in 2009. We are confident that the performance of the electronic components business will be better with the improvement of the market environment in the coming year.

CHAIRMAN'S STATEMENT

Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group, through its wholly-owned subsidiary, Magic Chance Investments Limited ("Magic Chance"), started to engage in securities and debts trading in Hong Kong in the year with a view for short to medium term profit. For the year ended 31 December 2010, Magic Chance invested in Hong Kong listed shares in an amount of approximately HK$1.9 million and captured a gain of approximately HK$640,000 during the year. It is expected that the Group will devote more resources in this business as the Hong Kong stock market environment is continued to be prosperous.

The Group also started the money lending business through its wholly-owned subsidiary, New Smart Credit Service Limited. New Smart Credit Service Limited holds the Money Lenders Licence in Hong Kong in late 2010. As the Group envisages that the financial environment in Hong Kong is continued to be prosperous, and thereby the demand for financial services will be increasing. We believe that the money lending business will yield promising returns to the Group.

Natural Gas Business

The Board resolved to discontinue the natural gas business on 2 December 2009, as such, the results of the natural gas business has been reported as a discontinued operation since the financial year ended 31 December 2009. On 10 December 2010, the Group entered into a sale and purchase agreement to conditionally sell the Natural Gas Business at a consideration of RMB50 million. The disposal was subsequently completed on 24 March 2011.

PROSPECTS

In 2011, the Group will further invest and develop its existing CBM business in Anhui Province in a board extent, through its business relationship with China United, and will take an active role to exploit this project including building up the piped network and carrying out marketing research study, with a view to launch its products to commercial operation in the near future.

The PRC Government is supportive to the exploitation and usage of CBM. It has a number of policies to encourage the existing coal enterprises to exploit the resource of CBM. Exploitation of CBM is generally regarded as one of the premier developments in the five provinces of the Western China, which would speed up the economic development in these areas. In addition, the Twelfth Five Year Plan of PRC government reiterates clean energy development as one of the key priorities of the Chinese leadership. With the promising China market, the development of coalbed methane has huge potential. Possible upwards gas pricing changes will also help boost our profitability.

The Board believes that the fast development of Chinese economy and increasing requirement of the environment protection will lead to a huge demand for clean energy and rapid growth of consumption on unconventional gas including coalbed methane.

CHAIRMAN'S STATEMENT

When the CBM business in Anhui Province commences its commercial operation, the Board envisages that the gas products will bring a steady income as well as a reasonable return on investment to the Group. The Board believes that with the resources primarily focused on developing the CBM business, the overall profitability will be achieved eventually.

In addition, the Group commences the business in treasury business during this year with a view to share the prosperous business opportunities in this sector. The Board believes that the recent low interest rate environment would foster the securities market and money lending business in Hong Kong. The Group will take a conservative approach to develop this business and manage the risks at a relatively low level.

APPRECIATION

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

Tong Nai Kan
Chairman

Hong Kong, 29 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover of continuing operations for the year was HK$48,067,000 (2009: HK$45,576,000), representing an increase of 5.47%. Such increase of turnover was mainly due to the contribution from the treasury business where the Group engaged in securities and debts trading in Hong Kong. The turnover generated by the sales of electronic components decreased by 0.33% from HK$43,207,000 in 2009 to HK$43,065,000 in 2010, representing 89.59% of the Group's turnover. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiary ("**CBM Operating Subsidiary**") and treasury segment contributed HK$2,458,000, (2009: HK$2,369,000) and HK$2,544,000 (2009: nil) to the Group in 2010, representing 5.12% and 5.29% of the Group's turnover respectively. The Group's gross profit of continuing operations increase by 24.15% to HK$7,603,000 from HK$6,124,000 in 2009.

The Group's profit from continuing operations for the year was HK$9,969,000 (2009: loss of HK$508,938,000). Substantial part of the Group's performance was mainly due to the accounting treatments of various items, such as the fair value gain on convertible bonds' embedded derivatives amounted to HK$179,550,000 (2009: loss of HK$304,332,000), gain on restructuring of promissory notes amounted to HK$21,278,000 (2009: nil), loss on redemption of promissory notes amounted to HK$20,137,000 (2009: nil), imputed interest on promissory notes amounted to HK$25,863,000 (2009: HK$52,290,000), and convertible bonds amounted to HK$14,651,000 (2009: HK$20,726,000), amortization of the PSC in respect of CBM amounted to HK$126,568,000 (2009: HK$124,674,000), the deferred tax credit amounted to HK$31,642,000 (2009: HK$31,169,000), and gain on disposal of subsidiaries amounted to nil (2009: HK$3,092,000). The aggregate net result of the abovementioned accounting profit for 2010 is HK$45,251,000 (2009: loss of HK$467,761,000).

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

For comparison purpose, the loss after tax from continuing operations for 2010 and 2009, if excluding those accounting profit was HK$35,282,000 and HK$41,177,000 respectively, a decrease in loss of 14.32% which was mainly due to the effective control on expenditures during the year.

The Group recorded a profit attributable to shareholders of approximately HK$9,969,000 (2009: loss of HK$580,695,000), and basic and diluted earnings per share from continuing and discontinuing operations was approximately HK$0.29 cents (2009: loss of HK$36.15 cents (as restated)). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had current assets of HK$449,958,000 (2009: HK$151,485,000) and current liabilities of HK$104,985,000 (2009: HK$155,692,000) and cash and bank balances of HK$346,803,000 (2009: HK$39,126,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 428.59% (2009: 97.3%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 29.84% (2009: 57.8%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In January 2010, the Company raised net proceeds of approximately HK$76,000,000 by share placement of 1,300,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.061 per share. The proceeds were used for partial redemption of the promissory notes and the general working capital of the Group.

In April 2010, convertible notes with principal amount of HK$90,000,000, that were carried with embedded derivatives portion of HK$14,685,000 and liability portion of HK$85,889,000, were converted into 391,304,347 new shares of the Company of HK$0.01 each at a conversion price of HK$0.23 per share.

In December 2010, the Company allotted 4,343,689,872 new ordinary shares of HK$0.04 each on the basis of two rights shares for every one share at a subscription price of HK$0.112 per rights share under a rights issue. Net proceeds of approximately HK$457,000,000 were primarily used for the repayment of promissory notes, the development of the coalbed methane business and the general working capital of the Group.

During the year up to 12 November 2010, being the last day of exercising of the bonus warrants, net proceeds of approximately HK$38,000,000 were raised upon the exercise of bonus warrants. The net proceeds were used for the general working capital of the Group.

During the year, all outstanding promissory notes with aggregate principal value of HK$227,583,000 were redeemed. There was no promissory note outstanding as at the balance sheet date.

The Group will constantly review its financial resources and will consider various plans to enhance its financial capabilities. The Group believes that to broaden its shareholders base would provide a solid ground for the Group to grow.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMITMENTS

Details of the commitments of the Group are set out in note 30 to the financial statements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operated in Hong Kong and the PRC with most of the transactions settled in Hong Kong dollars, Renminbi and United States dollars; the existing currency peg of Hong Kong dollars with United States dollars will likely continue in the near future, the exposure to foreign exchange fluctuation is minimal.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

Save as disclosed in note 31 to the financial statements, the Group had no other contingent liabilities as at 31 December 2010.

LITIGATION

(1) On 15 March 2009, 雲陽縣天然氣開發辦公室 (Yunyang Province Natural Gas Exploration Office) (the "**Plaintiff**") lodged a petition (2009渝二民初字第25號) to 重慶市第二中級人民法院 (Chongqing No. 2 Intermediate People's Court) (the "**Court**") against 重慶三峽(燃氣)集團有限公司 ("**Chongqing Three Gorges**") (the "**Lawsuit**"), among others, in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges. Chongqing Three Gorges was owned by the former shareholder of 重慶市雲陽縣天然氣有限責任公司 (Chongqing Yunyang Natural Gas Company Limited) and 雲陽縣三峽壓縮天然氣有限公司 (Yunyang Three Gorges Compressed Natural Gas Company Limited) (collectively the "**Two PRC Subsidiaries**"). The Two PRC Subsidiaries were at a later stage drawn as parties in the Lawsuit on 28 August 2009.

According to the advice of the PRC lawyer of the Company ("PRC lawyer"), upon the Plaintiff's application, the Lawsuit had been withdrawn in or about February 2010 and the Plaintiff should pay all court fees in connection with the Lawsuit.

The Plaintiff instituted another lawsuit on or about 4 March 2010 (the "**New Lawsuit**"), in which the Plaintiff alleged that Chongqing Three Gorges had been in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges (the "**Contract**") by (i) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the Contract to the Two PRC Subsidiaries; and (ii) selling the shareholding interests of the Two PRC Subsidiaries to the Company in 2006 without the consent of the Plaintiff.

According to the report of the Company's PRC lawyer on 26 October 2010, the Plaintiff had applied to the Court to withdraw the New Lawsuit, and pursuant to the order issued by the Court dated 19 October 2010, the Court had approved the withdrawal of the New Lawsuit, and had ordered the Plaintiff to pay the court fees in connection with the New Lawsuit. The New Lawsuit was therefore withdrawn accordingly.

(2) There is a dispute between Mr. Tan Chuanrong ("Mr. Tan"), the former beneficial owner of the Chongqing Natural Gas Companies, and Marvel Time Holdings Limited ("Marvel Time"), a wholly-owned subsidiary of the Company and immediate holding company of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas"). In or about December 2009, Mr. Tan expressed his intention to exercise the first right to purchase (the "First Right to Purchase") the entire issued capital of Sanxia Gas at a consideration of RMB50 million in writing, which is the same as that offered by an independent third party in a conditional sale and purchase agreement entered into between the said third party and Marvel Time on 2 December 2009 but subsequently terminated on 29 December 2009. The said First Right to Purchase was granted to Mr. Tan in the agreement dated 12 April 2006 (as supplemented by another agreement dated 27 April 2006) (collectively "2006 Original Agreement") relating to the Group's acquisition of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies (the "Target Group"), from Mr. Tan. The First Right to Purchase, which was irrevocable, would be valid for 7 years after the completion of the 2006 Original Agreement. The Group then negotiated with Mr. Tan on the terms of sale of Sanxia Gas, but the parties at that time could not reach an agreement. On 19 April 2010, Mr. Tan served a writ of summons, together with an indorsement of claim, against the Company and Marvel Time for (i) specific performance of 2006 Original Agreement to effect the sale of the entire interest of Sanxia Gas to Mr. Tan; (ii) damages in lieu of or in addition to specific performance; (iii) interest and costs arising; and (iv) further or other relief.

Meanwhile, the Group and Mr. Tan had continued the negotiation on the terms of the sale and purchase of the Target Group. On 10 December 2010, Marvel Time as seller, the Company and Mr. Tan as purchaser entered into a sale and purchase agreement pursuant to which Marvel Time has conditionally agreed to dispose of and Mr. Tan has conditionally agreed to purchase the entire issued capital of Sanxia Gas and the shareholder's loan at an aggregate consideration of RMB50 million (the "SPA").

On 15 December 2010, the aforesaid lawsuit was discontinued upon the joint application of Marvel Time, the Company and Mr. Tan with no order as to cost. And pursuant to the sale and purchase agreement, Mr. Tan shall have no claim against Marvel Time and the Company in respect of the First Right of Purchase upon completion.

(3) On 31 January 2011, the Company and its representative office in Chongqing ("**Chongqing Office**") received ten civil claims all dated 24 January 2011 taken out by ten former employees in the PRC issued at the People's Court of Chongqing City Jiang Bei District（重慶市江北區人民法院）for an aggregate amount of approximately RMB6,698,000 (the "**Employees' Claims**"). The Employees' Claims are related to the disputes arising from the termination of the employment of all ten former employees by the Company and its representative office in August 2009. The ten employees claimed against the Company and Chongqing Office for, inter alia, outstanding salaries, compensation for economic loss arising from the termination of their employment and social security payment. The total claim amount is approximately RMB6,698,000. The ten employees had purported to seek compensation against the Company and the Chongqing Office through Chongqing City Labour Dispute Arbitration Committee (重慶市勞動爭議仲裁委員會) in October 2009 but their applications were rejected and not dealt with by the committee. According to the Employees' Claims, the Company has to file its evidence against the Employees' Claims before 10 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Tan, as purchaser in the SPA, has confirmed in writing of his knowledge of the Employees' Claims and agreed to take up all responsibilities in handling the Employees' Claims after completion of the disposals pursuant to the SPA. The Company therefore takes the view that Mr. Tan shall be estopped from taking action against the Company in relation to the Employees' Claims after completion of the SPA in light of the written confirmation and his actual knowledge of the Employees' Claims.

Mr. Tan has also undertaken to the Company that the he shall refrain from taking legal action against the Company and the Directors in relation to the Employees' Claim.

As the completion of the SPA has been taken place on 24 March 2011, the Directors take the view that the Group's exposure in the Employees' Claims is remote.

CHARGE ON ASSETS

The short-term bank deposits, amounted to HK$3,009,000, have been pledged as securities for banking facilities granted to the continuing operations of the Group for the year ended 31 December 2010.

CAPITAL REORGANISATION

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 28 October 2010, the proposed capital reorganisation which involves (a) the consolidation of every four issued and unissued shares of HK$0.01 each into one consolidated share of HK$0.04 each ("the Share Consolidation); and (b) upon completion of the Share Consolidation, increase in the authorised share capital of the Company from HK$200,000,000 divided into 5,000,000,000 consolidated shares to HK$2,000,000,000 divided into 50,000,000,000 consolidated share was approved. The capital reorganisation was completed and became effective on 29 October 2010.

RIGHTS ISSUE

In December 2010, the Company allotted 4,343,689,872 new ordinary shares of HK$0.04 each on the basis of two rights shares for every one share at a subscription price at HK$0.112 per rights share under a rights issue (the "Rights Issue"). Net proceeds of approximately HK$457,000,000 were primarily used for the repayment of promissory notes, the development of the coalbed methane business and the general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BONUS WARRANTS

On 13 November 2009, the Company issued total of 1,322,153,278 bonus warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders ("Bonus Warrants") on 9 November 2009. The holders of Bonus Warrants are entitled at any time during the period commencing from 13 November 2009 to 12 November 2010 (both dates inclusive) for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). From January 2010 to 28 October 2010, total of 362,336,413 new ordinary shares of HK$0.01 each were issued upon the exercise of bonus warrants at the exercise price of HK$0.05. After the Share Consolidation but before the Rights Issue, there were total 4,371,045 new ordinary shares of HK$0.04 each were issued upon the exercise of bonus warrants at the adjusted exercise price of HK$0.20. After the Rights Issue, there were total 122,938,398 new ordinary shares of HK$0.04 each were issued upon the exercise of bonus warrants at the adjusted exercise price of HK$0.16.

For the year of 2010, net proceeds of approximately HK$38,000,000 were raised for the general working capital of the Group. According to the term of the bonus warrants, on 12 November 2010, the subscription rights attached to the bonus warrants were expired and ceased to be valid for any purpose thereon.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 34 to the financial statements, the Group had no other event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group had 56 employees, of which 35 were in Hong Kong and 21 were in Mainland China, excluding the discontinued operation and disposal group classified as held for sale. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in note 12 to the financial statements, the Group had no other material acquisition and disposal of subsidiaries during the year ended 31 December 2010.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Tong Nai Kan, aged 52, was appointed as an executive Director of the Company in March 1999 and was elected as chairman of the board of directors of the Company in May 2000. He also 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 awarded as the 11th World Outstanding Chinese Award from the World Chinese Business Foundation and the Honorary Doctoral Degrees from the International American University.

Cheng Wai Keung, aged 45, was appointed as an executive Director of the Company in November 2010. He obtained a bachelor's degree in business administration from Hong Kong Baptist University in the early 1990's. Mr. Cheng has over 20 years experience in Hong Kong financial market. He has extensive experience in investment and securities dealing and held senior positions in sales and marketing of various financial institutions in Hong Kong. Mr. Cheng has been appointed as the public relations manager of the Company since May 2010.

Lo Tai In, aged 46, was appointed as an executive Director of the Company in August 2009. He started his career in August 1991 as a junior negotiator in a property consultant firm. From May 1993 to March 1995, Mr. Lo was mainly involved in securities and forex dealings. From April 1995 onwards, he held positions in various trading companies in Hong Kong, mainly involving in accounting and corporate development.

Pang Yuen Shan, Christina, aged 38, was appointed as an independent non-executive Director of the Company in August 2009 and was re-designated as an executive Director of the Company on September 2009. She obtained a Bachelor of Laws with Honors (LL.B.) from City University of Hong Kong in 1995, a Master of Laws in International & Commercial Law (LL.M) from University of Sheffield, UK in 1996 and a Postgraduate Certificate in Laws (PCLL) from City University of Hong Kong in 1997 and is a member of The Law Society of Hong Kong. Ms. Pang has been a practising solicitor in Hong Kong since 1999 and had continued to practice in a Hong Kong law firm until April 2000. From April 2000 to September 2002, she was an inhouse lawyer of Young Champion Group. Ms. Pang is currently the consultant of Messrs. Tso Au Yim & Yeung, a solicitors firm in Hong Kong and the inhouse legal counsel of Waldorf Group.

Tam Tak Wah, aged 45, was appointed as an executive Director and the corporate development director of the Company in September 2009. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Tam has over 20 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Siberian Mining Group Company Limited and Tech Pro Technology Development Limited, both companies listed on the main board of The Stock Exchange of Hong Kong Limited and was an independent non-executive director of National Arts Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange during the period from 8 November 2004 to 23 June 2009.

Tsang Ching Man, aged 30, was appointed as an executive Director of the Company in August 2009. She is also the company secretary, the authorised representative and the chief financial officer of the Company. Ms. Tsang obtained a Bachelor of Business Administration (Hons) degree in Accountancy from City University of Hong Kong in 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Tsang started her career in July 2004 mainly involved in audit assignment in audit firms.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Tsz Kit, age 35, was appointed as an independent non-executive Director of the Company in September 2009. He is also the chairman and a member of the audit Committee, a member of the remuneration committee and the chairman and a member of the nomination committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has 10 years' working experience in public accounting and 5 years' experience in providing professional services to listing companies in the United States. Mr. Chan was a partner in a CPA firm Albert Wong & Co from July 2007 to June 2010. Now he is the Chief Financial Officer of a company listed on the NASDAQ Exchange in the United States.

Wang Li, aged 28, was appointed as an independent non-executive Director of the Company in September 2009. He is also a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics from Peking University in 2005 and a Master in Finance from the University of St Andrews, UK in 2008. He served as a research assistant of Skyone Securities Company Ltd. from February 2006 to August 2006. Mr. Wang is currently a trust manager of Citic Trust Co. Ltd..

Wong Kwok Hong Simon, age 41, was appointed as an independent non-executive Director of the Company in September 2009. He is also the chairman and a member of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Wong holds a Bachelor of Laws with Honors (LL.B.) from City University of Hong Kong in 1992, a Postgraduate Certificate in Laws (PCLL) from City University of Hong Kong in 1993 and a Master of Laws in Chinese and Comparative Law from City University of Hong Kong in 1998 and is a member of The Law Society of Hong Kong. Mr. Wong has been a practising solicitor in Hong Kong since 1995. He is currently the partner of Simon Wong & Co., a solicitor firm in Hong Kong.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board" or "Director(s)") of New Smart Energy Group Limited (the "Company") is pleased to present this Corporate Governance Report for the year ended 31 December 2010 (the "Year").

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS RESPONSIBILITIES

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

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2009 and the six months ended 30 June 2010 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 six executive Directors and three independent non-executive Directors ("INEDs"):

Executive Directors:
Mr. Tong Nai Kan *(Chairman)*
Mr. Cheng Wai Keung
Mr. Lo Tai In
Ms. Pang Yuen Shan, Christina
Mr. Tam Tak Wah
Ms. Tsang Ching Man

Independent non-executive Directors:
Mr. Chan Tsz Kit
Mr. Wang Li
Mr. Wong Kwok Hong Simon

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

Number of Meetings and Directors' Attendance

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

Name of Directors	Attendance/Number of Board Meetings
Mr. Tong Nai Kan	27/29
Mr. Cheng Wai Keung *(Note)*	7/7
Mr. Lo Tai In	28/29
Ms. Pang Yuen Shan, Christina	25/29
Mr. Tam Tak Wah	29/29
Ms. Tsang Ching Man	29/29
Mr. Chan Tsz Kit	22/29
Mr. Wang Li	14/29
Mr. Wong Kwok Hong Simon	17/29

Note: Mr. Cheng Wai Keung was appointed as the Executive Director on 22 November 2010.

Practices and Conduct of Meetings

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

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

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

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

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

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

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

Mr. Tong Nai Kan assumed the roles of both the chairman and CEO of the Company with effect from 1 September 2009, which constitutes a deviation from the code provision A.2.1.

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEE

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

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

Remuneration Committee
Mr. Wong Kwok Hong Simon *(Chairman)*
Mr. Chan Tsz Kit
Mr. Wang Li

Nomination Committee
Mr. Chan Tsz Kit *(Chairman)*
Mr. Wang Li
Mr. Wong Kwok Hong Simon

Audit Committee
Mr. Chan Tsz Kit *(Chairman)*
Mr. Wang Li
Mr. Wong Kwok Hong Simon

Remuneration Committee

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

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

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

Name of Directors	Attendance/Number of Remuneration Committee Meeting
Mr. Wong Kwok Hong Simon *(Chairman)*	0/1
Mr. Chan Tsz Kit	1/1
Mr. Wang Li	1/1

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

Nomination Committee

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

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

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

Name of Directors	**Attendance/Number of Nomination Committee Meeting**
Mr. Chan Tsz Kit *(Chairman)*	1/1
Mr. Wang Li	1/1
Mr. Wong Kwok Hong Simon	0/1

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

CORPORATE GOVERNANCE REPORT

Audit Committee

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

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

During the Year, the Audit Committee held three 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 Meeting
Mr. Chan Tsz Kit *(Chairman)*	3/3
Mr. Wang Li	1/3
Mr. Wong Kwok Hong Simon	3/3

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 have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

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

INTERNAL CONTROLS

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

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

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

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

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

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

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

Under the code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other business engagements, Mr. Tong Nai Kan, chairman of the Board, did not attend the annual general meeting held on 15 June 2010 (the "AGM"), which constitutes a deviation from the code provision E.1.2 during the Year. Mr. Tam Tak Wah, the executive Director, was elected as the chairman of the AGM pursuant to the Articles.

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

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

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 29 March 2011

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out on page 37.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2010.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital of the Company are set out in note 22 to the financial statements. Particulars of the bonus warrants during the year are set out in note 22(e) to the financial statements.

CONVERTIBLE NOTES

Details of movements in the convertible notes are set out in note 26 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, significant events after the reporting period of the Group occurred and their details are set out in note 34 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Tong Nai Kan	
Cheng Wai Keung	(appointed on 22 November 2010)
Lo Tai In	
Pang Yuen Shan, Christina	
Tam Tak Wah	
Tsang Ching Man	
Chan Tsz Kit*	
Wang Li*	
Wong Kwok Hong Simon*	

* *Independent Non-executive Directors*

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

In accordance with Articles 104 and 105 of the Articles of Association of the Company, Mr. Lo Tai In, Ms. Pang Yuen Shan, Christina and Ms. Tsang Ching Man will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS' INTERESTS IN CONTRACT

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

REPORT OF THE DIRECTORS

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

As at 31 December 2010, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number of shares	Percentage
Tong Nai Kan	Corporate *(Note)*	13,750,000	0.21%

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

Save as disclosed above, as at 31 December 2010, none of the Directors and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2010, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
New Alexander Limited *(Note)*	Corporate	–	1,529,496,052	23.04%
King Phoenix Ltd	Corporate	983,300,000	–	14.81%

Note: New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2013 in an aggregate outstanding principal amount of HK$1,162,417,000.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

REPORT OF THE DIRECTORS

SHARE OPTIONS

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

(1) Purpose

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

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

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

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

(2) Eligible participants

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

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

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

(3) Total number of shares available for issue

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

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

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

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

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

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

(4) Maximum entitlement of each eligible participant

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

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

(5) Option period

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

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

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

REPORT OF THE DIRECTORS

(7) Payment on acceptance of the Option

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

(8) Basis of determining the subscription price

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

(i) the closing price of the shares on the date of grant;

(ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

(9) The remaining life of the Scheme

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

As at 31 December 2010, there was no outstanding share option granted to the eligible participants.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover of continuing operations during the year attributable to the Group's five largest customers was 76.35% of the Group's total turnover of continuing operation, of which 36.30% was made to the largest customer.

The aggregate purchase of continuing operations during the year attributable to the Group's five largest suppliers was 97.86% of the Group's total purchases of continuing operations, of which 83.19% was made from the largest supplier.

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

ANNUAL CONFIRMATION OF INDEPENDENCE

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

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by CCIF CPA Limited.

On 25 June 2008, PricewaterhouseCoopers retired as auditor of the Company and did not offer themselves for reappointment at the annual general meeting held on that date. CCIF CPA Limited was appointed as the auditor of the Company at 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 reappointment. A resolution for the re-appointment of CCIF CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 29 March 2011

REPORT OF THE INDEPENDENT AUDITOR

CCIF

CCIF CPA LIMITED

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

REPORT OF THE INDEPENDENT AUDITOR'S 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 37 to 133, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

Except as described in the basis for qualified opinion paragraph, 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 whether the consolidated financial statements are free from material misstatement.

REPORT OF THE INDEPENDENT AUDITOR

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

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

BASIS FOR QUALIFIED OPINION

As stated in our report dated 2 May 2010, we disclaimed our opinion on the Group's consolidated financial statements for the year ended 31 December 2009 in view of the significance of the limitations in the scope of our audit arising from the inability of the Company to provide us with the access to the complete set of accounting books and records of each of Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies"), which are wholly-owned by Sanxia Gas (BVI) Investment Limited ("Sanxia Gas (BVI)"). Since 1 February 2010, as further detailed in note 12 to the consolidated financial statements, the management control over each of the Chongqing Natural Gas Companies had been taken over by the temporary supervisory committees which were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, The Peoples' Republic of China ("Supervisory Committees") to supervise the operation of the Chongqing Natural Gas Companies and secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies were subject to Supervisory Committees' approval, which included the management of funds, expenses, personnel changes, purchase and management of materials. The same scope limitation has continued to affect our audit for the year ended 31 December 2010 and we have been unable to access the books and records of each of the Chongqing Natural Gas Companies.

For the year ended 31 December 2009, the Chongqing Natural Gas Companies had already been classified as a disposal group held for sale in accordance with HKFRS 5 and the assets of approximately HK$97,117,000 less liabilities of approximately HK$45,741,000 of the disposal group had been written down to the estimated net recoverable amount of approximately HK$51,376,000 as at 31 December 2009. Subsequent to 31 December 2010 and on 24 March 2011, the entire equity interests of Sanxia Gas (BVI), together with its wholly-owned Chongqing Natural Gas Companies, were sold to Mr. Tan Chuanrong ("Mr. Tan"), a former director of the Company, at the consideration of RMB50,000,000 (equivalent to approximately HK$59,037,000) based on an agreement dated 10 December 2010 made between Marvel Time Holdings Limited, a wholly-owned subsidiary of the Company, and Mr. Tan.

REPORT OF THE INDEPENDENT AUDITOR

Any adjustments to the assets less associated liabilities of the disposal group held for sale brought forward from the year ended 31 December 2009 could have significant consequential effect on results and cash flows of the Group for the year ended 31 December 2010.

The consolidated financial statements for the year ended 31 December 2010 did not include the operating results and cash flows of the Chongqing Natural Gas Companies for the month of January 2010, immediately prior to cessation of management control over the Chongqing Natural Gas Companies as mentioned above, because the directors of the Company were unable to access to the books and records of the Chongqing Natural Gas Companies which were under control by the Supervisory Committees since 1 February 2010. We have been unable to carry out audit procedures to obtain sufficient reliable audit evidence to satisfy ourselves as to whether those financial information concerning the Chongqing Natural Gas Companies, as disclosed in note 12 to the consolidated financial statements, are free from material misstatement. Any adjustments found to be necessary for the operating results and cash flows of the Chongqing Natural Gas Companies for the period from 1 January 2010 to 31 January 2010 and their other financial information, as disclosed in note 12 to the financial statements, could have significant impact on the results and cash flows of the Group and those related disclosures of financial information of the Chongqing Natural Gas Companies for the year ended 31 December 2010.

QUALIFIED OPINION ARISING FROM LIMITATION OF SCOPE

In our opinion, except for the effect on the consolidated financial statements arising from the matters as set out in the basis of qualified opinion paragraph above, 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 2010 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.

In respect alone of the limitation on our work relating to the financial information for the Chongqing Natural Gas Companies, which were classified as disposal group held for sale, as referred to in note 12 to the consolidated financial statements, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2011

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
Continuing operations			
Turnover	5	**48,067**	45,576
Revenue	5	**46,163**	45,576
Cost of sales		**(38,560)**	(39,452)
Gross profit		**7,603**	6,124
Other revenue and other income	7	**754**	381
Administrative expenses		**(43,596)**	(47,523)
Amortisation of production sharing contract	16	**(126,568)**	(124,674)
Fair value change of convertible notes' embedded derivatives	26	**179,550**	(304,332)
Gain on restructuring the promissory notes	27	**21,278**	–
Loss on redemption of promissory notes	27	**(20,137)**	–
Gain on disposal of subsidiaries	32	**–**	3,092
Finance costs	8(a)	**(40,557)**	(73,175)
Loss before taxation	8	**(21,673)**	(540,107)
Income tax	11(a)	**31,642**	31,169
Profit/(loss) for the year from continuing operations		**9,969**	(508,938)
Discontinued operation			
Loss for the year from discontinued operation	12(a)	**–**	(71,757)
Profit/(loss) for the year		**9,969**	(580,695)
Attributable to owners of the Company		**9,969**	(580,695)
Earnings/(loss) per share (expressed in HK cents)	14		Restated
From continuing and discontinued operations			
Basic and diluted		**0.29**	(36.15)
From continuing operations			
Basic and diluted		**0.29**	(31.68)
From discontinued operation			
Basic and diluted		**–**	(4.47)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Profit/(loss) for the year		**9,969**	(580,695)
Other comprehensive income			
Exchange differences on translation of financial statements of foreign subsidiaries		**98,945**	17,709
Total comprehensive income/(loss) for the year (net of tax)		**108,914**	(562,986)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**42,086**	22,630
Intangible assets	16	**3,625,841**	3,618,284
Interest in an associate, net	18	**–**	–
Available-for-sale financial assets	19	**2,641**	2,641
		3,670,568	3,643,555
Current assets			
Trade and other receivables	20	**6,038**	15,242
Cash and bank balances	21	**346,803**	39,126
		352,841	54,368
Assets of a discontinued operation and disposal group classified as held for sale	12(b)	**97,117**	97,117
		449,958	151,485
Total assets		**4,120,526**	3,795,040
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	**265,539**	66,163
Reserves	23(a)	**1,691,500**	1,108,479
Total equity		**1,957,039**	1,174,642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Liabilities			
Non-current liabilities			
Promissory notes, unsecured	27	**–**	142,620
Convertible notes-liability portion, unsecured	26	**1,119,752**	1,190,990
Convertible notes-embedded derivatives, unsecured	26	**32,290**	226,525
Deferred taxation	28	**906,460**	904,571
		2,058,502	2,464,706
Current liabilities			
Other borrowing, unsecured	25	**20,035**	20,618
Promissory notes, unsecured	27	**–**	60,241
Trade and other payables	29	**39,209**	29,092
		59,244	109,951
Liabilities of a discontinued operation and disposal group classified as held for sale	12(b)	**45,741**	45,741
		104,985	155,692
Total liabilities		**2,163,487**	2,620,398
Total equity and liabilities		**4,120,526**	3,795,040
Net current assets/(liabilities)		**344,973**	(4,207)
Total assets less current liabilities		**4,015,541**	3,639,348

Approved and authorised for issue by the board of directors on 29 March 2011.

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 *HK$'000*	2009 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	15	**255**	988
Interests in subsidiaries	17	**2,254,004**	2,253,999
Interest in an associate, net	18	**–**	–
Available-for-sale financial assets	19	**2,641**	2,641
		2,256,900	2,257,628
Current assets			
Amounts due from subsidiaries, net	17	**84,727**	61,076
Other receivables	20	**1,201**	1,906
Cash and bank balances	21	**337,044**	32,776
		422,972	95,758
Total assets		**2,679,872**	2,353,386
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	22	**265,539**	66,163
Reserves	23(b)	**1,202,074**	611,334
Total equity		**1,467,613**	677,497

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
LIABILITIES			
Non-current liabilities			
Promissory notes, unsecured	27	**–**	142,620
Convertible notes- liabilities portion, unsecured	26	**1,119,752**	1,190,990
Convertible notes- embedded derivatives, unsecured	26	**32,290**	226,525
		1,152,042	1,560,135
Current liabilities			
Amounts due to subsidiaries	17	**52,475**	53,338
Other payables	29	**7,742**	2,175
Promissory notes, unsecured	27	**–**	60,241
		60,217	115,754
Total liabilities		**1,212,259**	1,675,889
Total equity and liabilities		**2,679,872**	2,353,386
Net current assets/(liabilities)		**362,755**	(19,996)
Total assets less current liabilities		**2,619,655**	2,237,632

Approved and authorised for issue by the board of directors on 29 March 2011.

Tong Nai Kan
Director

Tsang Ching Man
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium	Capital redemption reserve	Special capital reserve	Other capital reserve	Share option reserve	Investment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		Note 23(i)	*Note 23(i)*	*Note 23(ii)*	*Note 23(vi)*	*Note 23(iii)*	*Note 23(iv)*	*Note 23(v)*	*Note 23(vii)*		
At 1 January 2009	737,609	201,302	5,318	–	1,805	1,771	949	29,840	4,478	(244,844)	738,228
Capital reduction *(note 22(a) and note 23(c)(ii))*	(996,104)	–	–	492,172	–	–	–	–	–	503,932	–
Issue of new shares:											
– upon conversion of convertible notes *(note 22(c))*	317,903	613,944	–	–	–	–	–	–	–	–	931,847
– upon placing of shares *(note 22(d))*	6,700	60,578	–	–	–	–	–	–	–	–	67,278
– upon exercise of bonus warrants *(note 22(e))*	55	220	–	–	–	–	–	–	–	–	275
Share options forfeited	–	–	–	–	–	(1,771)	–	–	–	1,771	–
Loss for the year	–	–	–	–	–	–	–	–	–	(580,695)	(580,695)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	17,709	–	–	17,709
Total comprehensive loss for the year	–	–	–	–	–	–	–	17,709	–	(580,695)	(562,986)
Transfer to statutory reserve		–	–	–	–	–	–	–	1,692	(1,692)	–
At 31 December 2009 and 1 January 2010	66,163	876,044	5,318	492,172	1,805	–	949	47,549	6,170	(321,528)	1,174,642
Issue of new shares:											
– upon conversion of convertible notes *(note 22(c))*	3,913	96,661	–	–	–	–	–	–	–	–	100,574
– upon placing of shares *(note 22(d))*	13,000	63,524	–	–	–	–	–	–	–	–	76,524
– upon exercise of bonus warrants *(note 22(e))*	8,716	29,945	–	–	–	–	–	–	–	–	38,661
– upon rights issue *(note 22 (f))*	173,747	283,977	–	–	–	–	–	–	–	–	457,724
Profit for the year	–	–	–	–	–	–	–	–	–	9,969	9,969
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	98,945	–	–	98,945
Total comprehensive income for the year	–	–	–	–	–	–	–	98,945	–	9,969	108,914
At 31 December 2010	265,539	1,350,151	5,318	492,172	1,805	–	949	146,494	6,170	(311,559)	1,957,039

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 *HK$'000*	2009 *HK$'000*
Loss before taxation:		
– Continuing operations	**(21,673)**	(540,107)
– Discontinued operation	**–**	(70,039)
	(21,673)	(610,146)
Adjustments:		
Interest income	**(132)**	(657)
Finance costs	**40,557**	75,910
Fair value change of convertible notes' embedded derivatives	**(179,550)**	304,332
Gain on restructuring the promissory notes	**(21,278)**	
Loss on redemption of promissory notes	**20,137**	–
Depreciation	**3,575**	14,162
Amortisation of prepaid lease payments	**–**	202
Reversal of interest accrued	**(532)**	–
Amortisation of right to use gas pipelines	**–**	566
Amortisation of production sharing contract	**126,568**	124,674
Gain on disposal of subsidiaries	**–**	(3,092)
Impairment loss of property, plant and equipment	**–**	87,006
Impairment loss of right to use gas pipelines	**–**	5,646
Write-down of inventories	**–**	62
Impairment loss of trade and other receivables	**2,335**	130
Loss on disposal of property, plant and equipment	**871**	5,064
Impairment loss of other receivable from former related parties	**–**	2,853
Operating (loss)/profit before working capital changes	**(29,122)**	6,712
Decrease in inventories	**–**	1,774
Decrease in amounts due to related companies	**–**	(1,779)
Decrease/(increase) in trade and other receivables	**6,869**	(16,835)
Increase/(decrease) in trade and other payables	**10,649**	(344)
Cash used in operations	**(11,604)**	(10,472)
Interest received	**132**	657
Overseas income tax paid	**–**	989
Net cash outflow from operating activities	**(11,472)**	(8,826)
Investing activities		
Disposal of subsidiaries	**–**	(136)
Purchase of property, plant and equipment	**(22,738)**	(25,709)
Proceeds from disposal of property, plant and equipment	**117**	9,815
Proceeds from disposal of available-for-sale financial assets	**–**	130
Net cash outflow from investing activities	**(22,621)**	(15,900)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010**	2009
		HK$'000	*HK$'000*
Financing activities			
Proceeds from placing of shares		**76,524**	67,278
Proceeds from exercise of bonus warrants		**38,661**	275
Proceeds from rights issue, net of issuing costs	22(f)	**457,724**	–
Proceeds from other borrowings		**–**	569
Interest paid		**(43)**	(2,816)
Interest element of finance lease obligations		**–**	(78)
Repayment of bank loans		**–**	(9,505)
Repayment of other loans		**(1,365)**	(20,000)
Repayment of finance lease obligations		**–**	(331)
Redemption of promissory notes		**(227,583)**	–
Net cash inflow from financing activities		**343,918**	35,392
Net increase in cash and cash equivalents		**309,825**	10,666
Cash and cash equivalents at beginning of year		**49,109**	38,857
Effect of foreign exchange rate changes		**(2,148)**	(414)
Cash and cash equivalents at end of year represented by cash and bank balances *(note (a))*		**356,786**	49,109

Notes:

(a) For the purpose of the consolidation statement of cash flows, the cash and cash equivalents at the end of year included cash and bank balance of HK$9,983,000 for the disposal group held for sale (note 12(b)).

(b) Material non-cash transaction:

As disclosed in note 22(c) and note 26, during the year, convertible notes with aggregate principal value of HK$90,000,000 (2009: HK$747,583,000) and carrying amounts with fair value of embedded derivatives of HK$14,685,000 (2009: HK$224,760,000) and liability component stated at amortised cost of HK$85,889,000 (2009: HK$707,087,000), were converted into 391,304,347 (2009: 2,990,332,000) ordinary shares of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. 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 collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for certain financial instruments which are measured at fair values.

Non-current assets and disposal group held for sale are stated at lower of carrying amount and fair value less costs to sell (see note 2 (bb)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of uncertainty are discussed in note 4.

(c) Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvement to HKFRSs issued in 2008
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements- Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Application of new and revised Hong Kong Financial Reporting Standards *(Continued)*

The amendment to HKAS 39 and the issuance of HK-Int 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

– The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) – Int 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

– The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

– Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereby previously these changes were recognised as an adjustment to the costs of business combination and therefore impacted the amount of goodwill recognised..

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

(c) Application of new and revised Hong Kong Financial Reporting Standards ***(Continued)***

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquisition at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure then non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying amounts of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

As a result of the adoption of HKAS 27 (amended in 2008), the following changes will be applied as from 1 January 2010:

– If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposal, respectively.

– If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if acquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in the subsidiary will be reclassified as held for sale (assuming that the held for sale criteria of HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

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

(c) Application of new and revised Hong Kong Financial Reporting Standards ***(Continued)***

– In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associate, and HKAS 31 Interests in joint venture, the following policies will be applied as from 1 January 2010:

– If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

– Consistent with the transactional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance with consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Application of new and revised Hong Kong Financial Reporting Standards ***(Continued)***

As a result of the amendment to HKAS 17, Leases, arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate. The change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

The Group has not early adopted any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[7]
HKFRS 9	Financial Instruments[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 24 (Revised in 2009)	Related Party Disclosures[3]
HKAS 32 (Amendments)	Classification of Rights Issues[6]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguish Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, respectively
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 February 2010
7 Effective for annual periods beginning on or after 1 July 2011

The directors of the Company anticipate that the application of the above new and revised Standards, Amendments or Interpretations will have no material impact on the financial statements.

(d) Subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2 (e)).

In the Company's statement of financial position, an investment in a subsidiary is sated at cost less impairment losses (see note 2(m)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and jointly controlled entities

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

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 establishes 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, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identified net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2 (m)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate 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 investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

In the Company's statement of financial position, investments in an associate and jointly controlled entity are stated at cost less impairment losses (see note 2 (m)(i)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Jointly controlled assets

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

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

(f) **Accounting for production sharing contract**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Business combination

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

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 (2008) are recognised at their fair values, except that:

– deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with HKFRS 2 Share-based Payment; and

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

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

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(g) **Business combination *(Continued)***

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date.

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

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(h) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interst in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then the excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. For the purpose of equipment testing, goodwill is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of the reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividend or interest earned on these investments as these are recognised in accordance with the policies set out in notes 2 (z)(v)(iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-for-maturity securities. Held-to-maturity securities are stated in the statement of financial position at amortised cost les impairment losses (see note 2 (m)(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2 (m)(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised directly in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2 (z)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with policy set out in note 2 (z)(iv). When these investments are derecognised or impaired (see note 2 (m)(i)), the cumulated gain or loss is reclassified from equity to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2 (m)(ii)).

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

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

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

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

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

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

Construction in progress represents items of buildings and structures under construction, which is stated at cost less impairment losses (see note 2 (m)(ii)). Cost comprises the direct costs of construction as well as borrowing costs (see note 2(u)) during the period of construction. Construction in progress is classified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2 (m)(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 profit or loss on a straight-line basis over the asset's estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

Production sharing contract	30 years

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

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

(l) Leased assets

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

(i) Classification of assets leased to the Group

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets *(Continued)*

(ii) Operating lease charges

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

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

(m) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries see note (2)(m)(ii)) and other current receivables and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

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

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

– For investments in associates and jointly controlled entities recognised using equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2 (m)(i). The impairment is reversed if there has been a favourable change in the estimates used to determined the recoverable amount in accordance with note 2 (m)(i).

– 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 and other 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 when 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;
– construction in progress;
– prepaid lease payments;
– goodwill;
– intangible assets; and
– investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2 (bb)(i)).

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

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(m) Impairment of assets ***(Continued)***

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see note 2(m)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale 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.

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

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter measured at amortised cost less allowance for impairment of bad and doubtful debts (see note 2 (m)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for bad and doubtful debts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Interest-bearing borrowings

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

(q) Convertible notes

(i) Convertible notes that contains an equity component

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible notes *(Continued)*

(ii) Other convertible notes

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

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 2 (q)(i)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

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

(r) Promissory notes

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

(s) Trade and other payables

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

(t) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(u) Borrowing costs

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

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

(v) Employee benefits

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

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

(ii) Share-based payments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(iii) Termination benefits

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

(w) Income tax

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Income tax *(Continued)*

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

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

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

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

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

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

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

  - the same taxable entity; or

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Provisions and contingent liabilities

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

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

(y) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(z) Revenue recognition

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

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

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

(iii) Revenue from sale of electronic components is recognised when goods are delivered to the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

(v) Sale of trading securities is recognised on a trade date basis when the risks and rewards of ownership are transferred an title has passed.

(aa) Related parties

For the purposes of these financial statements, a party is 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 the Group's 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;

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Related parties *(Continued)*

(v) the party is a close family member of a party 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.

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

(i) Non-current assets held for sale

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

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Discontinued operations

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

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

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

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

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

(cc) Segment reporting

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The Group's activities expose it to a variety of finance risks, including currency risk, price risk on embedded conversion option, credit risk, liquidity risk, interest rate risk and oil and gas price risk. These risks are limited by the Group's financial management policies and practices described below:

(a) Currency risk

The Group operates primarily in both Hong Kong and the PRC and is exposed to exchange risk arising from transactions with respect to Hong Kong dollar and RMB which are the functional currencies of the operating entities of the Group. However, the directors of the Company consider that the Group's exposure to currency risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

At the end of the reporting period, the Group had certain bank balances denominated in United State Dollar ("US$") amounting to HK$13,000 (2009: HK$17,000), which is the currency other than the functional currencies 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 arise.

The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against US$ is 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 US$ denominated bank balances, and adjust its translation at the year end for a 5% change in foreign currency rate. A positive number below indicates an increase in post-tax loss when HK$ strengthens 5% against the relevant currency. For a 5% weakening of the HK$ and US$, there would be an equal and opposite impact on the profit or loss.

3. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(Continued)***

(a) **Currency risk *(Continued)***

	2010	2009
	Increase/ (Decrease) loss	Increase/ (decrease) loss
	HK$'000	*HK$'000*
US$ bank balances	**(1)**	(1)

(b) **Equity price risk**

The Group is exposed to equity price risk from changes in the Company's own share price to the extent that the Company's own financial instruments underline the fair values of financial derivatives of the Group. The Group is required to estimate the fair value of the conversion option embedded in the convertible notes at the end of each reporting period with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's 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 loss for the year (as a result of changes in fair values of conversion option component of convertible bonds) would increase by HK$32,094,000 (2009: price would decrease by HK$21,338,000) and decrease by HK$28,059,000 (2009: price would increase by HK$20,650,000), respectively.

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 notes 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 note holders are independent.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(Continued)*

(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 customers, including outstanding receivables and committed transactions. 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 directors. 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 or the Company 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 20.

The credit risk on cash at banks is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(d) Liquidity risk

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

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

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(Continued)*

(d) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the year end date of the Group's and the Company's 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 date of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2010					2009				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	2 years but less than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other borrowings	20,035	20,035	20,035	–	–	20,618	20,618	20,618	–	–
Trade and other payables	39,209	39,209	39,209	–	–	29,092	29,092	29,092	–	–
Promissory notes	–	–	–	–	–	202,861	227,583	67,583	160,000	–
Convertible notes (including embedded derivatives)	1,152,042	1,162,417	–	–	1,162,417	1,417,515	1,252,417	–	–	1,252,417
	1,211,286	1,221,661	59,244	–	1,162,417	1,670,086	1,529,710	117,293	160,000	1,252,417

The Company

	2010					2009				
	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	7,742	7,742	7,742	–	–	2,175	2,175	2,175	–	–
Promissory notes	–	–	–	–	–	202,861	227,583	67,583	160,000	–
Convertible notes (including embedded derivatives)	1,152,042	1,162,417	–	–	1,162,417	1,417,515	1,252,417	–	–	1,252,417
Amounts due to subsidiaries	52,475	52,475	52,475	–	–	53,338	53,338	53,338	–	–
	1,212,259	1,222,634	60,217	–	1,162,417	1,675,889	1,535,513	123,096	160,000	1,252,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. **FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(Continued)***

(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 2010, 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 profit for the year and accumulated loss by approximately HK$410,000 (2009: increase/decrease the Group's loss for the year and accumulated loss by HK$383,000). This sensitive analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period 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 2009.

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

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

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

(g) **Fair values**

(i) Financial instruments carried at fair value

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

– Level 1 : fair values measured using quoted prices (unadjusted) in active market for identical financial instruments

– Level 2 : fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 : fair values measured using valuation techniques in which any significant input is not based on observable market data

The following table presents the Group's and the Company's liabilities that are measured at fair value as at 31 December 2010 and 2009:

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(Continued)*

(g) Fair values *(Continued)*

The Group and the Company

	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2010			
Liabilities			
– Conversion option embedded in convertible notes	–	–	32,290
At 31 December 2009			
Liabilities			
– Conversion option embedded in convertible notes	–	–	226,525

(ii) Financial instruments carried at other then fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009.

(h) Estimation of fair values

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

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

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

(ii) Interest-bearing borrowings

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(i) Impairment of property, plant and equipment

The Group tests at least annually whether 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.

(ii) Fair value of available-for-sale investment

The fair value of each investment individually is determined at the end of each reporting period 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.

(iv) Impairment of trade and other receivables

As explained in note 2 (m)(i), the Group makes impairment loss on trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than estimated at the end of the reporting period.

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

(v) Useful lives and amortisation of intangible asset

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(vii) Impairment of intangible asset – Production Sharing Contract

The fair value of the Production Sharing Contract (note 16) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by BMI Appraisal 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 fair value of the intangible asset as at the end of the reporting period was arrived at by excess earning method under 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.

(viii) Fair value of embedded derivatives portion of convertible notes

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on the independent professional valuations using the binominal option model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2010 was HK$32,290,000 (2009: HK$226,525,000). Further details are disclosed in note 26 to the financial statements.

(ix) Functional currency

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

(x) Assets and liabilities of the disposal group classified as held for sale

As set out in note 12, the Company decided to discontinue the natural gas supply business which has been undertaken by the Chongqing Natural Gas Companies which have been classified as a disposal group held for sale. The directors of the Company expected the disposal to be completed within the next year, after having taken due care and consideration of the circumstances relating to the Chongqing Natural Gas Companies up to the date of approval for these financial statements. The carrying amount of assets of the disposal group held for sale of HK$97,117,000, net off the impairment of HK$92,652,000 recognised, and the associated liabilities of HK$45,741,000 have been separately disclosed and included in consolidated statement of financial position as at 31 December 2010. The determination of the fair value of these assets and liabilities of the disposal group less cost to sell requires significant judgement which may have significant impact on the results and financial position of the Group as at 31 December 2010.

5. TURNOVER AND OTHER REVENUE (CONTINUING OPERATIONS)

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

	2010	2009
	HK$'000	*HK$'000*
Turnover:		
Sale of electronic components	**43,065**	43,207
Sale of coalbed methane products	**2,458**	2,369
Proceeds from sale of trading of securities	**2,544**	–
	48,067	45,576

	2010	2009
	HK$'000	*HK$'000*
Revenue:		
Sale of electronic components	**43,065**	43,207
Sale of coalbed methane products	**2,458**	2,369
Gain on sale of trading of securities	**640**	–
	46,163	45,576

6. SEGMENT INFORMATION

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

6. **SEGMENT INFORMATION *(Continued)***

Continuing operations:

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

Discontinued operation:

- Natural gas

(a) Segment results, assets and liabilities

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

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

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associate and available-for-sale financial assets. Segment liabilities include trade and other payables attributable to the sales activities of the individual segments and borrowings managed directly by the segment, other than deferred tax liabilities.

6. **SEGMENT INFORMATION *(Continued)***

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

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

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

Year ended 31 December 2010

	Continuing operations				Discontinued operation	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	43,065	2,458	640	46,163	–	46,163
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	43,065	2,458	640	46,163	–	46,163
Reporting segment results	(1,139)	2,440	597	1,898	–	1,898
Amortisation for the year	–	126,568	–	126,568	–	126,568
Depreciation for the year	11	2,652	–	2,663	–	2,663
Loss on redemption of promissory notes	–	20,137	–	20,137	–	20,137
Gain on restructuring of promissory notes	–	(21,278)	–	(21,278)	–	(21,278)
Other income	–	(532)	–	(532)	–	(532)
Interest expenses	–	40,514	–	40,514	–	40,514
Major non-cash item:						
– Fair value change of convertible notes' embedded derivatives	–	(179,550)	–	(179,550)	–	(179,550)
Reporting segment assets	6,833	3,761,782	102,566	3,871,181	97,117	3,968,298
Additions to non-current segment assets during the year	–	19,858	–	19,858	–	19,858
Reporting segment liabilities	16,847	2,093,197	–	2,110,044	45,741	2,155,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION *(Continued)*

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

Year ended 31 December 2009

	Continuing operations				Discontinued operation	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	43,207	2,369	–	45,576	100,506	146,082
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	43,207	2,369	–	45,576	100,506	146,082
Reporting segment results	(2,120)	(505,999)	–	(508,119)	(70,039)	(578,158)
Amortisation for the year	–	124,674	–	124,674	–	124,674
Depreciation for the year	74	4,202	–	4,276	9,288	13,564
Other income	–	–	–	–	(6,725)	(6,725)
Interest income	–	–	–	–	(657)	(657)
Interest expenses	–	73,016	–	73,016	2,735	75,751
Major non-cash items:	–					
– Fair value change of convertible notes' embedded derivatives	–	304,332	–	304,332	–	304,332
– Impairment loss on property, plant and equipment	–	–	–	–	87,006	87,006
– Impairment loss on right to use gas pipelines	–	–	–	–	5,646	5,646
Reporting segment assets	7,819	3,647,210	–	3,655,029	97,117	3,752,146
Additions to non-current segment assets during the year	–	3,429	–	3,429	21,346	24,775
Reporting segment liabilities	16,650	2,554,539	–	2,571,189	45,741	2,616,930

6. **SEGMENT INFORMATION** ***(Continued)***

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

	2010	2009
	HK$'000	*HK$'000*
Revenue		
Continuing operations:		
Reportable segment revenue	**46,163**	45,576
Elimination of inter-segment revenue	**–**	–
Consolidated turnover from continuing operations	**46,163**	45,576
Discontinued operation *(note 12)*:		
Reporting segment revenue	**–**	100,506
Elimination of inter-segment revenue	**–**	–
Consolidated turnover from discontinued operation	**–**	100,506
	46,163	146,082
Profit or loss		
Continuing operations:		
Reportable segment profit/(loss)	**1,898**	(508,119)
Other income	**222**	381
Interest expense	**(43)**	(159)
Gain from disposal of subsidiaries	**–**	3,092
Unallocated head office and corporate expenses	**(23,750)**	(35,302)
Consolidated loss from continuing operations	**(21,673)**	(540,107)
Discontinued operation:		
Reportable segment loss	**–**	(70,039)
Assets		
Reportable segment assets	**3,968,298**	3,752,146
Unallocated head office and corporate assets	**152,228**	42,894
Consolidated total assets	**4,120,526**	3,795,040
Liabilities		
Reportable segment liabilities	**2,155,785**	2,616,930
Unallocated head office and corporate liabilities	**7,702**	3,468
Consolidated total liabilities	**2,163,487**	2,620,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION *(Continued)*

(c) Geographical information

	Continuing operations		Discontinued operations	
	Hong Kong	**PRC**	**PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2010				
Revenue	**43,705**	**2,458**	**–**	**46,163**
Non-current assets	**2,048**	**3,665,879**	**–**	**3,667,927**
Available-for-sale financial assets	**2,641**	**–**	**–**	**2,641**
2009				
Revenue	43,207	2,369	100,506	146,082
Non-current assets	155	3,640,759	–	3,640,914
Available-for-sale financial assets	2,641	–	–	2,641

(d) Information about major customers

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

	2010	2009
	HK$'000	*HK$'000*
Revenue from sale of electronic components:		
Customer A	**15,732**	29,490
Customer B	**10,801**	–
	26,533	29,490

7. OTHER REVENUE AND OTHER INCOME

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
Bank interest income	**132**	–
Tooling income for unclaimed moulding fee	**55**	192
Reversal of interest accrued	**532**	–
Sundry income	**35**	189
	754	381

8. LOSS BEFORE TAXATION

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

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expenses on following borrowings wholly repayable within five years		
Imputed interest on promissory notes *(note 27)*	**25,863**	52,290
Imputed interest on convertible notes *(note 26)*	**14,651**	20,726
Interest on bank overdrafts	**43**	81
Charge on finance lease obligations	**–**	78
Total interest expense on financial liabilities not at fair value through profit or loss	**40,557**	73,175
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**20,734**	21,235
Contributions to defined contribution retirement plans	**329**	268
Total staff costs	**21,063**	21,503
(c) Other items		
Amortisation of production sharing contract	**126,568**	124,674
Depreciation of property, plant and equipment	**3,575**	4,874
Operating lease charges in respect of land and buildings	**3,417**	4,338
Auditor's remuneration		
– Audit services	**650**	950
– Non-audit services	**220**	125
Loss on disposal of property, plant and equipment	**871**	127
Impairment loss on trade and other receivables	**2,335**	130
Write-down of inventories	**–**	62
Cost of inventories sold	**38,560**	39,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION

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

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

9. DIRECTORS' REMUNERATION *(Continued)*

	2009				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Tong Nai Kan	150	3,940	–	12	4,102
Chow Sim Chu, Shirley (resigned on 1 August 2009)	88	634	–	12	734
Tan Chuanrong (resigned on 10 June 2009)	–	–	–	–	–
Wang Wengang (resigned on 1 September 2009)	100	690	–	4	794
Tsang Ching Man (appointed on 1 August 2009)	–	325	–	5	330
Tam Tak Wah (appointed on 1 September 2009)	–	195	–	4	199
Lo Tai In (appointed on 1 August 2009)	–	60	–	3	63
Pang Yuen Shan, Christina (appointed as Independent Non-executive Director on 1 August 2009 and was re-designated as the Executive Director on 30 September 2009)	–	–	–	–	–
Non-executive director					
Ko Ming Tung (resigned on 1 September 2009)	100	–	–	–	100
Independent non-executive directors					
Tang Tin Sek (resigned on 10 June 2009)	66	–	–	–	66
Liu Ngai Wing (resigned on 30 September 2009)	112	–	–	–	112
Lam Yat Fai (resigned on 31 July 2009)	87	–	–	–	87
Chan Kin Sang (resigned on 30 September 2009)	112	–	–	–	112
Pang Yuen Shan, Christina (re-designated on 30 September 2009)	16	–	–	–	16
Chan Tsz Kit (appointed on 30 September 2009)	25	–	–	–	25
Wang Li (appointed on 30 September 2009)	25	–	–	–	25
Wong Kwok Hong, Simon (appointed on 30 September 2009)	25	–	–	–	25
	906	5,844	–	40	6,790

There was no amount paid during the years ended 31 December 2010 and 2009 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 2010 and 2009.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Out of the emoluments of the five individuals with the highest emoluments, two (2009: two) are directors, whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three (2009: three) individuals are as follows:

	2010	2009
	HK\$'000	*HK\$'000*
Salaries and other benefits	**4,137**	4,837
Contributions to retirement benefits schemes	**36**	24
	4,173	4,861

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

Emoluments bands	**Number of individuals**	
	2010	2009
Nil to HK\$1,000,000	**–**	–
HK\$1,000,001 to HK\$1,500,000	**2**	2
HK\$1,500,001 to HK\$2,500,000	**1**	1
	3	3

There was no amount paid or payable during the years ended 2010 and 2009 to any of these individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
Current taxation		
Provision for the year	**–**	–
Deferred taxation *(note (28))*	**31,642**	31,169
Tax credit	**31,642**	31,169

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

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
Loss before taxation from continuing operations	**(21,673)**	(540,107)
Notional tax on loss before taxation, calculated at the rates applicable to profits/(losses) in the countries concerned	**(14,334)**	(100,226)
Tax effect of non-taxation income	**(30,719)**	(1,540)
Tax effect of non-deductible expenses	**44,862**	101,444
Reversal of temporary differences previously recognised	**31,642**	31,169
Tax effect of tax losses not recognised	**191**	322
Tax credit	**31,642**	31,169

(c) Hong Kong profits tax has not been provided as the Group do not have any assessable profit for the years ended 31 December 2010 and 2009.

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% (2009: 30%).

Pursuant to the tax treaty agreement between the Government of the PRC and the Government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deducted from any Canadian tax payable in respect of such profits, income or gains. No provision for Canadian tax has been made as the Group has no assessable profits derived from Canada during the years ended 31 December 2010 and 2009.

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

(c) ***(Continued)***

The subsidiaries in the PRC are subject to PRC corporate income tax rate of 25% (2009: 25%). No provision for PRC corporate income tax has been made as the Group had no assessable profits arising in the PRC during the years ended 31 December 2010 and 2009.

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

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

On 2 December 2009, the directors of the Company resolved to discontinue the operation of natural gas supply in Chongqing, the PRC which is undertaken by the subsidiaries of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") through its subsidiaries, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies") all established in the PRC. The Chongqing Natural Gas Companies have been reclassified as a disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 ("HKFRS 5") "Non-current Assets Held for Sale and Discontinued Operations".

On 1 February 2010, the management control over the Chongqing Natural Gas Companies was taken over by temporary supervisory committees for the Chongqing Natural Gas Companies which were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, the PRC ("Supervisory Committees") in order to, among other things, to supervise the operation of the Chongqing Natural Gas Companies and to secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies were subject to the Supervisory Committees' approval, which included the management of funds, expenses, personnel changes and purchase and management of materials. The Supervisory Committees were also empowered to investigate any other material issues in connection with the Chongqing Natural Gas Companies.

On 24 March 2011, the Company completed the disposal of the entire equity interest in Sanxia Gas, together with Chongqing Natural Gas Companies, at a cash consideration of RMB50 million to a former director of the Company, Mr Tan Chuanrong ("Mr. Tan") based on an agreement dated 10 December 2010 made between Marvel Time Holdings Limited, a wholly-owned subsidiary of the Company, and Mr. Tan and the cash consideration was received by the Group on 24 March 2011.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

(a) The results and cash flows of the discontinued operation and the disposal group for the ended 31 December 2009 were as follows:

	Year ended 31 December 2009 *HK$'000*
Loss for the year from discontinued operation	
Turnover	100,506
Cost of natural gas sold	(57,814)
Gross profit	42,692
Interest income	657
Other income	6,725
Selling and distribution expenses	(2,460)
Administrative expenses	(22,266)
Impairment loss on property, plant and equipment	(87,006)
Impairment loss on right to use gas pipelines	(5,646)
Finance costs	(2,735)
Loss before taxation	(70,039)
Income tax	(1,718)
Loss for the year	(71,757)
Cash flows from discontinued operation	
Net cash inflow from operating activities	28,020
Net cash outflow from investing activities	(12,452)
Net cash outflow from financing activities	(8,937)
Net cash flows	6,631

Due to the supervision of the Chongqing Natural Gas Companies since 1 February 2010, the Group has been unable to obtain the financial information for the operating results and cash flows of the disposal group for the period from 1 January 2010 to 31 January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. **DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)***

(b) The carrying amount of major classes of assets and liabilities of a discontinued operation and disposal group classified as held for sale are analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Assets of a discontinued operation and a disposal group classified as held for sale	**97,117**	97,117
Liabilities of a discontinued operation and a disposal group classified as held for sale	**(45,741)**	(45,741)
Recoverable amount of disposal group classified as held for sale	**51,376**	51,376

At 31 December 2010, the directors of the Company have carefully assessed the expected recoverable value of the disposal group with due considerations of actual sale price of the entire equity interests of the disposal group at RMB50 million (HK$59,037,000) based on the agreement dated 10 December 2010, made between Marvel Time Holdings Limited and Mr. Tan, which was subsequently completed on 24 March 2011, and the costs to sell of approximately HK$7,661,000. In the opinion of the directors of the Company, the recoverable amount of the disposal group of HK$51,376,000 (2009: HK$51,376,000) (assets less liabilities) was reasonably determined and approximate the fair value of the assets less associated liabilities of the disposal group less costs to sell.

(c) **Contingent liabilities of a disposal group classified as held for sale**

(i) On 30 January 2008, each of the Chongqing Natural Gas Companies entered into an agreement with 重慶維洲交通設施安裝有限責任公司, an independent third party not associated with the Group and its management, pursuant to which 重慶維洲交通設施安裝有限責任公司 shall charge a fee of RMB0.3 per cubic meter of the gas supplied by 重慶凱源石油天然氣有限責任公司 as consideration for its arrangement services for stable gas supply for a period commencing from 1 February 2008 to date of business cessation of each of the Chongqing Natural Gas Companies. Management of each of the Chongqing Natural Gas Companies considered that 重慶維洲交通設施安裝有限責任公司 had not fulfilled its obligations under the aforesaid agreement and therefore, each of the Chongqing Natural Gas Companies terminated this agreement without consent of 重慶維洲交通設施安裝有限責任公司 and discontinued to accrue for the above service fee beginning from February 2009.

12. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE *(Continued)*

(c) Contingent liabilities of a disposal group classified as held for sale *(Continued)*

(ii) On 15 March 2009, Yunyang Province Natural Gas Exploration Office (雲陽縣天然氣開發辦公室) (the "Plaintiff") lodged a petition to Chongqing No.2 Intermediate People's Court (重慶市第二中級人民法院) (the "Court") against 重慶三峽(燃氣)集團有限公司(Chongqing Three Gorges Natural Gas (Group) Limited ("Chongqing Three Gorges") in breach of the exploitation and operation contract and requested to terminate the exploitation and operation contract. Chongqing Three Gorges was owned by the former shareholder of Chongqing Yunyang Natural Gas Company Limited and Yunyang Three Gorges Compressed Natural Gas Company Limited (collectively the "Two PRC Subsidiaries"). The Two PRC Subsidiaries were at a later stage drawn as parties to the lawsuit and had joined the court proceedings on 28 August 2009 which lawsuit was subsequently withdrawn pursuant to the order issued by the Court dated 6 February 2010.

(iii) On 4 March 2010, the Plaintiff (as referred to note (i) above) instituted another lawsuit against Chongqing Three Gorges and the Two PRC Subsidiaries (the "new lawsuit") in which the Plaintiff alleged Chongqing Three Gorges had been in breach of the exploitation and operating contract entered into between the Plaintiff and Chongqing Three Gorges by (1) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the contract to the Two PRC Subsidiaries; and (2) selling the shareholding interests in the Two PRC subsidiaries to the Company in 2006 without the consent of the Plaintiff. The new lawsuit was subsequently withdrawn pursuant to the order issued by the Court dated 19 October 2010.

(iv) On 31 January 2011, the Company and its representative office in Chongqing, the PRC, received ten civil claims taken out by ten former employees of Chongqing Natural Gas Companies for an aggregate amount of approximately HK$6,698,000 arising from the termination of employment of all these ten employees by the Company. Details are set out in note 34 to the financial statements.

(d) Commitments of a disposal group classified as held for sale

At 31 December 2010, there were no material commitments in each of the Chongqing Natural Gas Companies.

(e) Charges on assets of a disposal group classified as held for sale

The bank loans of HK$14,224,000 were secured by the rights to collect revenue on sales of natural gas of the Chongqing Natural Gas Companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. PROFIT/(LOSS) ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated profit for the year attributable to the owners of the Company includes a profit of HK$120,557,000 (2009: loss of HK$490,859,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share are as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit/(loss) used in the calculation of total basic earnings/(loss) per share from continuing and discontinued operations	**9,969**	(580,695)
Loss for the year from discontinued operation used in the calculation of basic earnings/(loss) per share from discontinued operation	**–**	(71,757)
Profit/(loss) used in the calculation of basic earnings/(loss) per share from continuing operations	**9,969**	(508,938)

	2010	2009 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share during the year:		
Issued ordinary shares at 1 January	**2,414,844,037**	1,076,868,879
Effect of conversion of convertible notes	**104,083,122**	454,927,728
Effect of exercise of bonus warrants	**113,454,581**	179,950
Effect of rights issue	**357,015,606**	–
Effect of placing of shares	**457,583,142**	74,367,260
Issued ordinary shares at 31 December	**3,446,980,488**	1,606,343,817

The weighted average number of ordinary shares for the year ended 31 December 2010 and 2009 for the purpose of basic and diluted earnings/(loss) per share has been adjusted and restated respectively resulting from the share consolidation and rights issue which completed on 29 October 2010 and 1 December 2010, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Diluted earnings/(loss) per share

	2010	2009 (Restated)
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share during the year:	**3,446,980,488**	1,606,343,817

The diluted earnings/(loss) per share for the year ended 31 December 2010 and 2009 is same as the basic earnings/(loss) per share as the conversion and exercise price of outstanding convertible notes and/or bonus warrants during 2010 and 2009, where applicable, were higher than the average market price of the Company's shares and accordingly, there was no dilutive effect on the basic earnings/(loss) per share for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Gas pipelines	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At 1 January 2009	10,992	136,317	14,559	31,920	5,573	6,188	735	206,284
Exchange adjustments	67	831	95	444	7	10	2	1,456
Additions	–	16,010	3,874	3,940	411	2,586	136	26,957
Disposals	–	(6,460)	(8,822)	–	(2,681)	(2,559)	–	(20,522)
Disposal of subsidiaries *(note 32)*	–	–	–	–	(3)	(4,002)	–	(4,005)
Assets of disposal group held for sale *(note 12(b))*	(11,059)	(146,698)	(8,063)	(11,619)	(1,108)	(1,691)	(562)	(180,800)
At 31 December 2009 and 1 January 2010	–	–	1,643	24,685	2,199	532	311	29,370
Exchange adjustments	162	–	380	958	–	19	–	1,519
Additions	6,196	–	12,126	1,100	396	1,734	1,186	22,738
Disposals	–	–	–	–	(802)	(731)	–	(1,533)
At 31 December 2010	6,358	–	14,149	26,743	1,793	1,554	1,497	52,094
Accumulated depreciation:								
At 1 January 2009	1,102	15,351	–	1,970	4,597	2,773	472	26,265
Exchange adjustments	8	121	–	30	3	3	1	166
Charge for the year	470	7,480	–	5,044	292	752	124	14,162
Written back on disposal	–	(1,411)	–	–	(2,632)	(1,600)	–	(5,643)
Disposal of subsidiaries *(note 32)*	–	–	–	–	(2)	(1,085)	–	(1,087)
Impairment loss	–	87,006	–	–	–	–	–	87,006
Assets of disposal group held for sale *(note 12(b))*	(1,580)	(108,547)	–	(2,724)	(415)	(577)	(286)	(114,129)
At 31 December 2009 and 1 January 2010	–	–	–	4,320	1,843	266	311	6,740
Exchange adjustments	1	–	–	236	–	1	–	238
Charge for the year	52	–	–	2,753	12	214	544	3,575
Written back on disposal	–	–	–	–	(292)	(253)	–	(545)
At 31 December 2010	53	–	–	7,309	1,563	228	855	10,008
Carrying amount:								
At 31 December 2010	6,305	–	14,149	19,434	230	1,326	642	42,086
At 31 December 2009	–	–	1,643	20,365	356	266	–	22,630

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

The Group ***(Continued)***

The buildings are situated in the PRC under medium-term lease. None of property, plant and equipment was pledged as security for borrowings of the Group as at 31 December 2010 and 2009.

The Company

	Furniture and fixtures	**Motor Vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2009	3,445	1,645	5,090
Additions	327	–	327
Disposals	(2,974)	(918)	(3,892)
Exchange adjustments	4	4	8
At 31 December 2009 and 1 January 2010	802	731	1,533
Additions	–	318	318
Disposals	(802)	(731)	(1,533)
At 31 December 2010	–	318	318
Accumulated depreciation:			
At 1 January 2009	2,931	683	3,614
Charge for the year	125	180	305
Written back on disposal	(2,765)	(611)	(3,376)
Exchange adjustments	1	1	2
At 31 December 2009 and 1 January 2010	292	253	545
Charge for the year	–	63	63
Written back on disposal	(292)	(253)	(545)
At 31 December 2010	–	63	63
Carrying amount:			
At 31 December 2010	–	255	255
At 31 December 2009	510	478	988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

The Group

	Production sharing contract (“PSC”) *(notes (a) and (b))* *HK$’000*	**Right to use gas pipelines** *HK$’000*	**Total** *HK$’000*
Cost:			
At 1 January 2009	3,731,090	7,530	3,738,620
Assets of a disposal group classified as held for sale *(note 12 (b))*	–	(7,576)	(7,576)
Exchange adjustments	22,749	46	22,795
At 31st December 2009 and 1 January 2010	3,753,839	–	3,753,839
Exchange adjustments	142,587	–	142,587
At 31 December 2010	3,896,426	–	3,896,426
Accumulated amortisation:			
At 1 January 2009	10,364	1,354	11,718
Charge for the year	124,674	566	125,240
Assets of a disposal group classified as held for sale *(note 12 (b))*	–	(1,930)	(1,930)
Exchange adjustments	517	10	527
At 31 December 2009 and 1 January 2010	135,555	–	135,555
Charge for the year	126,568	–	126,568
Exchange adjustments	8,462	–	8,462
At 31 December 2010	270,585	–	270,585
Carrying amount:			
At 31 December 2010	3,625,841	–	3,625,841
At 31 December 2009	3,618,284	–	3,618,284

16. INTANGIBLE ASSETS *(Continued)*

Notes:

(a) Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008, the Group has obtained the interest in a coalbed methane production sharing contract which was entered into between Canada Can-Elite Energy Limited ("Can-Elite"), a wholly-owned subsidiary, and China United Coalbed Methane Corporation Limited ("China United") on 8 November 2007 ("PSC"). The interests of China United and Can-Elite under the PSC are in the proportion of 30% and 70% respectively, or in proportion to their participating interests in the development costs.

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

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

China United was established in 1996 and its principal business includes the exploitation, exploration, development, production and delivery and transportation of coalbed methane in the PRC and provision of ancillary services in relation thereto. The State Council of the PRC had in 1996 granted an exclusive right to China United to explore, develop and produce coalbed methane in cooperation with overseas companies. China United has obtained the approval from State Council of the PRC to have the option to cooperate with a foreign enterprise to exploit the coalbed methane resources in the contract area in a block covering approximately 567.843 square kilometres in the Su'nan Area of Auhui Province, the PRC under the PSC together with modification dated on 28 February 2009 ("CBM Contract Area"). Pursuant to the PSC, Can-Elite is engaged as a foreign partner to provide advanced technology and assign its competent experts to explore, develop, produce and sell coalbed methane, liquid hydrocarbons or coalbed methane products extracted from the CBM Contract Area. China United shall, among others, facilitate local approvals and liaison with local and government bodies and market the coalbed methane and liquid hydrocarbons and sell the same to prospective buyers.

The PSC provides a term of thirty consecutive years commencing from 1 April 2008, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which is set up by Can-Elite and China United, pursuant to the PSC, to oversee the operations in the CBM Contract Area.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

Can-Elite and China United shall be reimbursed the cost incurred during the development and production periods in the proportion of 70% and 30% respectively, or in proportion to their participating interests of each coalbed methane field. Upon extraction of the coalbed methane and liquid hydrocarbons, the coalbed methane and liquid hydrocarbons products shall be sold by China United and deposit the proceeds into a joint bank account opened by Can-Elite, and distribute the profits between the parties in the proportion of their participating interests in the development costs, or any other marketing approaches and procedures agreed by Can-Elite and China United.

For all assistance to be provided by China United, the administrative fee is in the sum of US$30,000 (equivalent to HK$234,000) and US$50,000 (equivalent to HK$390,000) payable by Can-Elite to China United during the exploration period, and the development and production period, respectively, as agreed by Can-Elite and China United with reference to the administrative fee payable by other foreign investors with China United in other production sharing contracts. In the opinion of the Directors of the Company, the administrative fee payable by the Can-Elite is comparable to that payable by other foreign investors with China United in other production sharing contracts.

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

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

		2010	2009
		HK$'000	*HK$'000*
(i)	Results for the year		
	Revenue	**2,458**	2,369
	Expenses	**(3,624)**	(3,570)
	Amortisation charge of PSC	**(126,568)**	(124,674)
	Deferred tax liabilities	**31,642**	31,169
(ii)	Other comprehensive income		
	Exchange difference on translation of foreign operations	**98,872**	16,668
(iii)	Assets and liabilities		
	Intangible assets-PSC	**3,625,841**	3,618,284
	CBM related plant and machinery	**32,724**	22,475
	Current liabilities	**(30,443)**	(20,618)
	Deferred tax liabilities *(note 28)*	**(906,460)**	(904,571)
(iv)	Capital commitments *(note 30(a))*		
	Contracted but not provided for	**22,462**	31,425
	Authorised but not contracted for	**12,467**	12,010

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(b) Impairment test on PSC

The recoverable amount of PSC has been determined based on a value in use calculations. The valuation was carried out by BMI Appraisals Limited, an independent firm of professional valuers not connected with the Group. The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the 12-year period, and discount rate of 16.01%, which is pre-tax and reflect specific risk, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, exploitation method is appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's expectation for the market development. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2010 is based technical reports issued by Netherland, Sewell & Associates, Inc. on 2 March 2011 and 31 October 2008. Since the recoverable amount of the PSC exceeded its carrying amount, no impairment loss is considered necessary for the year ended 31 December 2010 (2009: Nil).

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Loan to a subsidiary *(note (a))*	**2,254,004**	2,253,999
Interests in subsidiaries	**2,254,004**	2,253,999
Amounts due from subsidiaries *(notes (b) & (c))*	**438,467**	487,681
Less: Impairment loss *(note (b))*	**(353,740)**	(426,605)
	84,727	61,076
Amounts due to subsidiaries *(note (c))*	**52,475**	53,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) The loan to a subsidiary of HK$2,254,004,000 (2009: HK$2,253,999,000) is unsecured, interest free and will not be demanded for repayment. In the opinion of the directors of the Company, this loan in substance forms part of the Company's investment cost in a subsidiary.

(b) An allowance for amounts due from subsidiaries of HK$353,740,000 (2009: HK$426,605,000) was recognised as at 31 December 2010 because the related recoverable amounts of the balances due from subsidiaries were estimated to be less than their carrying amounts, after taking into account of the financial position of the subsidiaries.

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

(d) 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 activitues
Barraza Company Limited	Hong Kong	100%	100%	–	HK$2	Provision of secretarial services
Ever Double Investments Limited	British Virgin Islands ("BVI")/Hong Kong	100%	100%	–	US$1	Investment holding
Hong Kong Sanxia Gas Investment Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
Marvel Time Holdings Limited	BVI	100%	100%	–	US$1	Investment holding
Sanxia Gas (BVI) Investment Limited	BVI	100%	–	100%	US$1	Investment holding
Strong Way International Limited	Hong Kong	60%	–	60%	HK$1,000,000	Electronic components trading
Nation Rich Investments Limited	BVI	100%	100%	–	US$1	Investment holding
Merit First Investments Limited	BVI	100%	–	100%	US$1	Investment holding

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(d) Particulars of the principal subsidiaries are as follows: *(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 activitues
Powerful Sky Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Canada Can-Elite Energy Limited	Canada	100%	–	100%	Can$10,000	Coalbed methane gas exploration and development and exploitation
Goal Reach Investment Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
Magic Chance Investments Limited	BVI	100%	100%	–	US$1	Investment holding
Wisedeal Investments Limited	BVI	100%	100%	–	US$1	Investment holding

18. INTEREST IN AN ASSOCIATE

	The Group and The Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**50**	50
Less: Impairment loss	**(50)**	(50)
	–	–

The associate did not have any material profit or loss for the year or reserve as at 31 December 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INTEREST IN AN ASSOCIATE *(Continued)*

Particulars of the associate are as follows:

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of attributable equity interest		Principal activity
			2010	2009	
Zhong Hang Yu (H.K.) Limited	Hong Kong	HK$100,000	**50%**	50%	Inactive

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group and The Company	
	2010	2009
	HK$'000	*HK$'000*
Club debentures	**2,641**	2,641

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors	**3,652**	4,689	**–**	–
Less: allowance for doubtful debts	**(332)**	(298)	**–**	–
	3,320	4,391	**–**	–
Other receivables	**801**	6,177	**545**	933
Deposits and prepayments	**1,917**	4,674	**656**	973
	2,718	10,851	**1,201**	1,906
	6,038	15,242	**1,201**	1,906

Trade and other receivables of HK$17,064,000 (2009: HK$17,064,000) attributable to a disposal group classified as held for sale were separately reclassified and disclosed in note 12(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. 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:

	2010	2009
	HK$'000	*HK$'000*
Current – within 1 month	**2,910**	4,278
More than 1 month but within 3 months	**392**	38
More than 3 months but within 6 months	**18**	48
More than 6 months	**–**	27
	3,320	4,391

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

(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:

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**298**	168
Impairment loss recognised	**34**	130
At 31 December	**332**	298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables *(Continued)*

At 31 December 2010, the Group's trade receivables of HK$332,000 (2009: HK$ 298,000) 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$34,000 (2009: HK$130,000) were recognised. The Group does not hold any collateral over these balances.

(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.

21. CASH AND BANK BALANCES

	The Group		**The Company**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Short-term deposits	**303,167**	3,008	**300,007**	–
Cash at bank and in hand	**43,636**	36,118	**37,037**	32,776
Cash and bank balances included in disposal group held for sale *(note 12(b))*	**9,983**	9,983	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**356,786**	49,109	**337,044**	32,776

Cash and bank balances include short-term deposits amounted to HK$303,167,000 (2009: HK$3,008,000), with effective interest ranging from 0.04% to 0.7% (2009: 0.04%) per annum and average maturity of about 32 days (2009: 32 days). The short-term bank deposits, amounted to HK$3,009,000 (2009: HK$3,008,000), have been pledged as securities for banking facilities granted to the Group.

22. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares *HK$'000*
Authorised:		
At 1 January 2009 ordinary shares of HK$0.25 each	20,000,000,000	5,000,000
Capital reduction *(note a)*	–	(4,800,000)
At 31 December 2009 and 1 January 2010 ordinary shares of HK$0.01 each	20,000,000,000	200,000
Share consolidation *(note b)*	(15,000,000,000)	–
Increase in authorised share capital *(note b)*	45,000,000,000	1,800,000
At 31 December 2010 ordinary shares of HK$0.04 each	50,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2009	2,950,434,391	737,609
Capital reduction *(note a)*	–	(996,104)
Issue of new shares		
– upon conversion of convertible notes *(note c)*	2,990,332,000	317,903
– upon placing of shares *(note d)*	670,000,000	6,700
– upon exercise of bonus warrants *(note e)*	5,488,413	55
At 31 December 2010 and 1 January 2010	6,616,254,804	66,163
Share consolidation *(note b)*	(6,502,421,673)	–
Issue of new shares		
– upon conversion of convertible notes *(note c)*	391,304,347	3,913
– upon placing of shares *(note d)*	1,300,000,000	13,000
– upon exercise of bonus warrants *(note e)*	489,645,856	8,716
– upon rights issue *(note f)*	4,343,689,872	173,747
At 31 December 2010	6,638,473,206	265,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. SHARE CAPITAL *(Continued)*

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

(a) Capital reduction

On 21 July 2009, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 6 April 2009, the Hong Kong Court of First Instance approved that the nominal value of every issued and unissued share of the Company was reduced from HK$0.25 to HK$0.01 each by cancelling capital paid up or credited as paid up to the extent of HK$0.24 upon each of the shares of the Company. The capital reduction was completed and became effective on 21 July 2009. The credit of HK$996,104,000 arising from the capital reduction with HK$503,932,000 credited to the accumulated losses of the Company and HK$492,172,000 to a special capital reserve.

(b) Capital reorganisation

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

Following the share consolidation became effective on 29 October 2010, the authorised share capital of the Company was increased from HK$200,000,000 divided into 5,000,000,000 shares of HK$0.01 each to HK$2,000,000,000 divided into 50,000,000,000 of HK$0.04 each, of which 2,167,473,891 shares were in issue and fully paid. The shares after the share consolidation rank pari passu in all respects with the existing ordinary shares with each other.

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

During the year ended 31 December 2009, convertible notes with principal amount of HK$747,583,000 were converted into 1,200,000,000 ordinary shares of the Company of HK$0.25 each and 1,790,332,000 ordinary shares of the Company of HK$0.01 each as set out below.

22. SHARE CAPITAL *(Continued)*

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

2009

Conversion date	Nominal value of share	Principal value of convertible notes converted	Carrying amount of convertible notes on conversion: Fair value of embedded derivatives of convertible notes	Carrying amount of convertible notes on conversion: Amortised cost of liability portion of convertible notes	Number of shares issued upon conversion
	HK$	*HK$'000*	*HK$'000*	*HK$'000*	
4 June 2009	0.25*	100,000	32,397	94,389	400,000,000
18 June 2009	0.25*	100,000	26,667	94,434	400,000,000
25 June 2009	0.25*	50,000	13,492	47,229	200,000,000
30 June 2009	0.25*	50,000	12,846	47,238	200,000,000
10 August 2009	0.01	100,000	33,794	94,614	400,000,000
11 August 2009	0.01	100,000	35,350	94,618	400,000,000
19 August 2009	0.01	97,583	28,998	92,357	390,332,000
20 August 2009	0.01	40,000	11,882	37,859	160,000,000
23 October 2009	0.01	110,000	29,334	104,349	440,000,000
Total		747,583	224,760	707,087	2,990,332,000

At each of the above conversion dates, the fair value of the embedded derivative portion of the convertible notes was determined by the directors of the company based on the valuations conducted by the independent professional valuer, BMI Appraisals Limited, using the binominal options pricing model; the liability component of the convertible notes is carried at amortised cost using an effective rate of 1.29%. Upon conversion of the convertible notes, the carrying amounts of liability portion and fair value of the embedded derivative portion of the convertible notes were transferred to the share capital of HK$317,903,000 and share premium of HK$613,944,000.

22. SHARE CAPITAL *(Continued)*

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

The following key inputs and data were applied to the binominal options pricing model at each conversion of the convertible notes during the year ended 31 December 2009:

	4/6/2009	**18/6/2009**	**25/6/2009**	**30/6/2009**	**10/8/2009**
Spot price of the Company's shares	HK$0.128*	HK$0.109*	HK$0.109*	HK$0.105*	HK$0.134*
Exercise price of the Company's shares	HK$0.25*	HK$0.25*	HK$0.25*	HK$0.25*	HK$0.25*
Risk free rate	1.83%	2.005%	2.108%	1.945%	1.913%
Expected life	4.48 years	4.44 years	4.42 years	4.41 years	4.3 years
Expected volatility of the Company's share	101.9%	102.9%	104.2%	104.4%	102.48%
Expected dividend yield	0%	0%	0%	0%	0%

	11/8/2009	**19/8/2009**	**20/8/2009**	**23/10/2009**
Spot price of the Company's shares	HK$0.139*	HK$0.121*	HK$0.121*	HK$0.112*
Exercise price of the Company's shares	HK$0.25*	HK$0.25*	HK$0.25*	HK$0.25*
Risk free rate	1.862%	1.626%	1.622%	1.483%
Expected life	4.3years	4.3 years	4.3 years	4.1 years
Expected volatility of the Company's share	102.57%	103.01%	103.01%	104.57%
Expected dividend yield	0%	0%	0%	0%

* These market prices at the relevant dates and the exercise price had not been restated for the effects arising from the subsequent share consolidation and rights issue on 28 October 2010 and 1 December 2010, respectively.

22. SHARE CAPITAL *(Continued)*

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

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

2010

			Carrying amount of convertible notes on conversion		
Conversion date	**Nominal value of share**	**Principal value of convertible notes converted**	**Fair value of embedded derivatives of convertible notes**	**Amortised cost of liability portion of convertible notes**	**Number of shares issued upon conversion**
	HK$	***HK$'000***	***HK$'000***	***HK$'000***	
9 April 2010	**0.01**	**90,000**	**14,685**	**85,889**	**391,304,347**

The following key inputs and data were applied to the binominal options pricing model for the conversion of the convertible notes:

	9/4/2010
Spot price of the Company's share	**HK$0.076***
Exercise price of the Company's share	**HK$0.23***
Risk free rate	**1.499%**
Expected life	**3.63 years**
Expected volatility of the Company's share	**104.38%**
Expected dividend yield	**0%**

* These market price and the exercise price at the date of conversion had not been restated for the effects arising from the subsequent share consolidation and rights issue on 28 October 2010 and 1 December 2010 respectively.

22. **SHARE CAPITAL** ***(Continued)***

(d) Issue of new shares upon placing of shares

On 11 September 2009, the Company placed and issued 670,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.103. Net proceeds from such issue amounted to HK$67,278,000, out of which HK$6,700,000 and HK$60,578,000 were recorded in share capital and share premium, respectively.

On 13 January 2010, the Company placed and issued 1,300,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.061. Net proceeds from such issue amounted to HK$76,524,000, out of which HK$13,000,000 and HK$63,524,000 were recorded in share capital and share premium, respectively.

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

On 13 November 2009, the Company issued 1,322,153,278 bonus warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders. The holders of bonus warrants are entitled at any time during the period from 13 November 2009 to 12 November 2010 (both dates inclusive) for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). During the year ended 31 December 2009, warrant holders exercised 5,488,413 units of bonus warrants to subscribe for 5,488,413 ordinary shares of the Company at an exercise price of HK$0.05 each. As at 31 December 2009, 1,316,664,865 units of bonus warrants remained outstanding.

During the year ended 31 December 2010, warrant holders exercised their rights to subscribe for 362,336,413, 4,371,045 and 122,938,398 ordinary shares at a subscription price of HK$0.05, HK$0.20 and HK$0.16 per share respectively.

The remaining 169,825,435 units of bonus warrants lapsed on the expiry date as of 12 November 2010.

(f) Issue of new shares upon rights issue

On 1 December 2010, the Company issued and allotted 4,343,689,872 ordinary shares of HK$0.04 each to the qualifying shareholders pursuant to the rights issue on the basis of two rights shares of every share held on 8 November 2010 at a subscription price of HK$0.112 per share. The net proceeds will be used for the development of its coalbed methane gas business, redemption of promissory notes and general working capital of the Group.

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

23. RESERVES

(a) The Group

	Share premium	Capital redemption reserve	Special capital reserve	Other capital reserve	Share option reserve	Investment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note(c)(i)	*Note(c)(i)*	*Note(c)(ii)*	*Note(c)(vi)*	*Note(c)(iii)*	*Note(c)(iv)*	*Note(c)(v)*	*Note(c)(vii)*		
At 1 January 2009	201,302	5,318	–	1,805	1,771	949	29,840	4,478	(244,844)	619
Capital reduction *(notes 22(a) and 23(c)(ii))*	–	–	492,172	–	–	–	–	–	503,932	996,104
Issue of new shares:										
– upon conversion of convertible notes *(note 22 (c))*	613,944	–	–	–	–	–	–	–	–	613,944
– upon placing of shares *(note 22(d))*	60,578	–	–	–	–	–	–	–	–	60,578
– upon exercise of bonus warrants *(note 22 (e))*	220	–	–	–	–	–	–	–	–	220
Share options forfeited *(note 24)*	–	–	–	–	(1,771)	–	–	–	1,771	–
Loss for the year	–	–	–	–	–	–	–	–	(580,695)	(580,695)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	17,709	–	–	17,709
Total comprehensive loss for the year	–	–	–	–	–	–	17,709	–	(580,695)	(562,986)
Transfer to statutory reserve	–	–	–	–	–	–	–	1,692	(1,692)	–
At 31 December 2009 and 1 January 2010	876,044	5,318	492,172	1,805	–	949	47,549	6,170	(321,528)	1,108,479
Issue of new shares:										
– upon conversion of convertible notes *(note 22 (c))*	96,661	–	–	–	–	–	–	–	–	96,661
– upon placing of shares *(note 22(d))*	63,524	–	–	–	–	–	–	–	–	63,524
– upon exercise of bonus warrants *(note 22(e))*	29,945	–	–	–	–	–	–	–	–	29,945
– upon rights issue *(note 22(f))*	283,977	–	–	–	–	–	–	–	–	283,977
Profit for the year	–	–	–	–	–	–	–	–	9,969	9,969
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	98,945	–	–	98,945
Total comprehensive income for the year	–	–	–	–	–	–	98,945	–	9,969	108,914
At 31 December 2010	1,350,151	5,318	492,172	1,805	–	949	146,494	6,170	(311,559)	1,691,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. RESERVES *(Continued)*

(b) The Company

	Share premium HK$'000 Note(i)	Capital redemption reserve HK$'000 Note(i)	Special capital reserve HK$'000 Note(ii)	Share option reserve HK$'000 Note(iii)	Investment reserve HK$'000 Note(iv)	Exchange reserve HK$'000 Note(v)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	201,302	5,318	–	1,771	949	(1,443)	(715,525)	(507,628)
Capital reduction *(notes 22(a) and 23(c)(ii))*	–	–	492,172	–	–	–	503,932	996,104
Issue of new shares:								
–upon conversion of convertible notes *(note 22(c))*	613,944	–	–	–	–	–	–	613,944
– upon placing of shares *(note 22(d))*	60,578	–	–	–	–	–	–	60,578
– upon exercise of bonus warrants *(note 22(e))*	220	–	–	–	–	–	–	220
Share options forfeited *(note 24)*	–	–	–	(1,771)	–	–	1,771	–
Loss for the year	–	–	–	–	–	–	(551,669)	(551,669)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	(215)	–	(215)
Total comprehensive loss for the year	–	–	–	–	–	(215)	(551,669)	(551,884)
At 31 December 2009 and 1 January 2010	876,044	5,318	492,172	–	949	(1,658)	(761,491)	611,334
Issue of new shares:								
– upon conversion of convertible notes *(note 22(c))*	96,661	–	–	–	–	–	–	96,661
– upon placing of shares *(note 22(d))*	63,524	–	–	–	–	–	–	63,524
– upon exercise of bonus warrants *(note 22(e))*	29,945	–	–	–	–	–	–	29,945
– upon rights issue *(note 22 (f))*	283,977	–	–	–	–	–	–	283,977
Profit for the year	–	–	–	–	–	–	116,633	116,633
At 31 December 2010	1,350,151	5,318	492,172	–	949	(1,658)	(644,858)	1,202,074

23. RESERVES *(Continued)*

Pursuant to the reductions in capital of the Company in 2003 ("2003 Capital Reduction") and in 2009 ("2009 Capital Reduction") (note 22(a)), the Company has undertaken that in the event of its making any future recoveries in respect of the provisions against certain specific subsidiaries as at 31 December 2002 and 2009, respectively, all such recoveries up to maximum amounts of HK$367,938,293, in relation to 2003 Capital Reduction and HK$130,663,000, in relation to 2009 Capital Reduction, will be credited to a special capital reserve of the Company, which shall not be treated as realised profits for the purpose of section 79B of the Hong Kong Companies Ordinance and shall be treated as an un-distributable reserve of the Company for the purpose of section 79C of the Hong Kong Companies Ordinance.

At 31 December 2010 and 2009, no credit transfer to this special capital reserve was made by the Company as there were no recoveries in respect of these provisions against certain specific subsidiaries at 2010 and 2009.

(c) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

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

(ii) Special capital reserve

Pursuant to the reduction in capital of the Company (note 22 (a)) ("2009 Capital Reduction"), the amount of HK$492,172,000 by which the capital reduction exceeds the total accumulated losses of permanent nature of the Company as at 31 December 2008, has been credited to a special capital reserve of the Company which shall not be treated as realised profits for the purpose of Section 79B of the Hong Kong Companies Ordinance and shall be treated as an un-distributable reserve of the Company for the purpose of Section 79C of the Hong Kong Companies Ordinance.

(iii) 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 in note 24.

The balance of this reserve was transferred to the accumulated losses as an equity movement when the attributable share options were forfeited by eligible participants during the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. RESERVES *(Continued)*

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

(iv) 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(i).

(v) Exchange reserve

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

(vi) Other capital reserve

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

(vii) Statutory reserve

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

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

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

(viii) Distributable reserves

As at 31 December 2010, the aggregate amount of reserves available for distribution to owners of the Company, as calculated under the provisions of section 79B of the Hong Kong Companies Ordinance was HK$ Nil (2009: HK$ Nil).

23. RESERVES *(Continued)*

(d) Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The net debt-to-adjusted capital ratio at 31 December 2010 and 2009 was as follows:

	The Group	
	2010	2009
	HK$'000	*HK$'000*
Other borrowings	**20,035**	20,618
Convertible notes	**1,152,042**	1,417,515
Promissory notes	**–**	202,861
Less: Cash and cash equivalents	**(346,803)**	(39,126)
Net debt from continuing operations	**825,274**	1,601,868
Bank loans	**16,499**	16,499
Other borrowings	**569**	569
Less: Cash and cash equivalents	**(9,983)**	(9,983)
Net debt from discontinued operation	**7,085**	7,085
Total net debt	**832,359**	1,608,953
Total equity	**1,957,039**	1,174,642
Adjusted capital	**2,789,398**	2,783,595
Net debt-to-adjusted capital	**29.84%**	57.80%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. 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 exercised under an option is determined by the board of directors of the Company from time to time, except that such period shall not expire more than ten years from the date of grant of the options.

Movements in the number of share options outstanding during the year are as follows:

	Number of share options	
	2010	2009
At beginning of the year	**–**	13,730,000
Share options granted *(note e)*	**–**	–
Share options forfeited *(note a)*	**–**	(12,930,000)
Share options exercised *(note e)*	**–**	–
Share options lapsed *(note b)*	**–**	(800,000)
At end of the year *(note c)*	**–**	–

(a) Share options forfeited

Exercisable period	**Exercise price** *HK$*	**Number of share options 2010**	Number of share options 2009
1 April 2007 to 29 February 2012	0.2620	**–**	2,600,000
19 August 2007 to 18 July 2012	0.4550	**–**	–
8 April 2006 to 7 March 2011	0.2648	**–**	1,830,000
1 July 2006 to 31 May 2011	0.2900	**–**	8,500,000
		–	12,930,000

24. SHARE OPTION SCHEME ***(Continued)***

(b) Share options lapsed

Exercisable period	**Exercise price** *HK$*	**Number of share options 2010**	Number of share options 2009
27 October 2005 to 26 September 2010	0.2500	–	800,000

(c) Outstanding options

Exercisable period	**Exercise price** *HK$*	Number of share options 2009
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

There were no outstanding options at 31 December 2010, as all these options were forfeited or lapsed during the year ended 31 December 2009.

(d) Fair value of options and assumptions

The fair value of the options granted and vested during the year ended 31 December 2007 was HK$23,879,000, 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 was based on statistical analysis of daily share prices over the last three years.

(e) No share options were granted and exercised during the two years ended 31 December 2009 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. OTHER BORROWING, UNSECURED

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

26. CONVERTIBLE NOTES

On 26 November 2008, the Company issued convertible notes with an aggregated principle amount of HK$2,000,000,000 with a term of five years as settlement of part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited. The notes are unsecured and carry zero coupon interest rate. The notes are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 (subject to adjustments) per conversion share at any time during the period commencing from the date of issue of convertible notes. Upon the issue of bonus warrants on 13 November 2009 as detailed in note 22(e), the conversion price of the convertible notes has been changed from HK$0.25 to HK$0.23 each with effect on 10 November 2009.

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

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

At the end of each reporting period, the fair value of the embedded derivatives portion of the convertible notes were revalued by an independent professional valuer, BMI Appraisals Limited, using the options pricing model, and the change in the fair value of the embedded derivatives of HK$179,550,000 (2009: HK$304,332,000) was credited to the consolidated income statement for the year ended 31 December 2010. Implicit interest is accrued on the liability component of the convertible notes using the effective interest method by applying the effective interest rate of 1.29% per annum.

26. CONVERTIBLE NOTES *(Continued)*

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

	The Group and the Company		
	Embedded derivatives portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of convertible notes (with principal value of HK$2,000,000,000) as at 1 January 2009	146,953	1,877,351	2,024,304
Imputed interest charged to consolidated income statement	–	20,726	20,726
Increase in fair value charged to consolidated income statement	304,332	–	304,332
Conversion into new shares *(note 22 (c))*	(224,760)	(707,087)	(931,847)
Carrying amount of convertible notes (with principal value of HK$1,252,417,000) as at 31 December 2009 and 1 January 2010	226,525	1,190,990	1,417,515
Imputed interest charged to consolidated income statement	–	14,651	14,651
Decrease in fair value credited to consolidated income statement	(179,550)	–	(179,550)
Conversion into new shares *(note 22 (c))*	(14,685)	(85,889)	(100,574)
Carrying amount of convertible notes (with principal value of HK$1,162,417,000) as at 31 December 2010	32,290	1,119,752	1,152,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. CONVERTIBLE NOTES *(Continued)*

The following key inputs and data were applied to the binominal options pricing model for the conversion options embedded in the convertible notes at 31 December 2010:

	31/12/2010	31/12/2009
Spot price of the Company's shares	**HK$0.163**	HK$0.079*
Exercise price of the Company's shares	**HK$0.76**	HK$0.23*
Risk free rate	**0.931%**	1.542%
Expected life	**2.9 years**	3.9 years
Expected volatility of the Company's shares	**96.04%**	104.84%
Expected dividend yield	**0%**	0%

* These market prices at the relevant dates and the exercise price had not been restated for the effects arising from the subsequent share consolidation and rights issue on 28 October 2010 and 1 December 2010, respectively.

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

27. PROMISSORY NOTES, UNSECURED

On 26 November 2008, the Company issued HK$240,000,000 unsecured redeemable promissory notes as settlement for part of the consideration for with the acquisition of the 100% equity interest in Merit First Investments Limited. The promissory notes is repayable in 1.5 years i.e. 26 May 2010. The promissory notes bears zero coupon rate. The Company has the right to redeem the promissory notes prior to the maturity date by serving a written notice to the note-holder, New Alexander Limited. The fair value of promissory notes at the issue date was approximately HK$155,457,000, based on the independent valuation performed by Asset Appraisal Limited, a firm of independent professional valuers. The effective interest rate of the promissory notes was determined to be 33% per annum at the issue date on 26 November 2008, with reference to the similar instruments in the market. The promissory notes is carried at amortised cost using the effective interest rate of 33% per annum, until extinguishment or redemption. On 18 August 2009, a portion of the promissory notes with a principal amount of HK$12,417,000 and carrying amount at amortised cost of HK$9,583,000 was used by the note holder to off-set the same amount due to the Company.

On 20 January 2010 and 27 April 2010, promissory notes with principal value of HK$60,000,000 and HK$7,583,000 were early redeemed at face value of HK$54,293,434 and HK$7,410,564, respectively. A loss of HK$5,879,000 on redemption was recognised in profit or loss for the year ended 31 December 2010. On 21 April 2010, the promissory notes with principal value of HK$160,000,000 had been restructured with an extended maturity from 26 May 2010 to 26 May 2011 and was subsequently further extended to 31 October 2011, resulting a gain on restructure of promissory notes of HK$21,278,000 which was recognised in profit of loss for the year ended 31 December 2010. On 3 December 2010, the Company early redeemed all remaining promissory notes with principal value of HK$160,000,000 with carrying amount of HK$145,742,126, resulting a loss on early redemption of HK$14,258,000 was recognised in profit or loss for the year ended 31 December 2010.

27. PROMISSORY NOTES, UNSECURED ***(Continued)***

The movements of the promissory notes carried at amortised cost are set out below:

	The Group and the Company	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**202,861**	160,154
Imputed interest charged for the year	**25,863**	52,290
Loss on redemption of promissory notes	**20,137**	–
Gain on restructuring terms of promissory notes	**(21,278)**	–
Settlement of promissory notes	**(227,583)**	(9,583)
At 31 December	**–**	202,861
Amounts classified under following categories in statement of financial position:		
Non-current liabilities	**–**	142,620
Current liabilities	**–**	60,241
	–	202,861

28. DEFERRED TAXATION

The Group

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**904,571**	935,360
Credited to consolidated income statement	**(31,642)**	(31,169)
Deferred liabilities of a disposal group classified as held for sale *(note 12(b))*	**–**	(5,211)
Exchange adjustments	**33,531**	5,591
At 31 December	**906,460**	904,571

28. DEFERRED TAXATION *(Continued)*

The Group ***(Continued)***

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

	Temporary differences on natural gas connection fees	Fair value adjustments on business combination	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2009	4,559	930,801	935,360
Credited to consolidated income statement *(note 11(a))*	–	(31,169)	(31,169)
Classified as liability of a disposal group held for sale *(note 12(b))*	(4,586)	(625)	(5,211)
Exchange adjustments	27	5,564	5,591
At 31 December 2009 and 1 January 2010	–	904,571	904,571
Credited to consolidated income statement *(note 11(a))*	–	(31,642)	(31,642)
Exchange adjustments	–	33,531	33,531
At 31 December 2010	–	906,460	906,460

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 tax assets of the Group and the Company amounting to HK$25,145,000 (2009: HK$21,960,000) and HK$22,453,000 (2009: HK$19,442,000), 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.

29. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**8,080**	11,825	**–**	–
Other payables	**28,362**	14,925	**5,864**	445
Accrued operating expenses	**2,767**	2,342	**1,878**	1,730
	39,209	29,092	**7,742**	2,175

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

	2010	2009
	HK$'000	*HK$'000*
Current –within 1 month	**3,263**	4,147
More than 1 month but within 3 months	**3,893**	6,009
More than 3 months but within 6 months	**564**	1,267
More than 6 months	**360**	402
	8,080	11,825

30. COMMITMENTS

(a) Capital commitments

Capital commitments in respect of the coalbed methane exploration and exploitation under the production sharing contract as at 31 December 2010 not provided for in the financial statements were as follows:

The Group

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
Authorised but not contracted for		
– Production sharing contract	**12,467**	12,010
Contracted but not provided for		
– Production sharing contract	**22,462**	31,425
– Property, plant and equipment	**–**	5,883
	34,929	49,318

There were no material commitments for the discontinued operation and disposal group held for sale as referred to note 12 to the financial statements.

30. **COMMITMENTS** ***(Continued)***

(b) **Operating lease commitments**

At 31 December 2010, the total minimum lease payments of the Group in respect of land and buildings under non-cancellable operating leases are payable as follows:

The Group

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
Within 1 year	**2,613**	1,388
After I year but within 5 years	**580**	363
After 5 years	**–**	–
	3,193	1,751

Details of the material operating lease commitments for the discontinued operation and disposal group held for sale are referred to note 12 to the financial statements.

31. **CONTINGENT LIABILITIES**

(a) **Environmental contingencies**

The Group has not incurred any significant expenditure for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants irrespectively of whether they are operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future costs is not determinable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CONTINGENT LIABILITIES *(Continued)*

(b) The contingencies of the disposal group held for sale are disclosed in note 12 (c) to the financial statements.

32. DISPOSAL OF SUBSIDIARIES – 2009

During the year ended 31 December 2009, the Group disposed of the entire equity interests in New Smart Property Investment Limited and its subsidiaries (together the "New Smart Property Investment Group"), for a cash consideration of HK$1, to an independent third party.

The net liabilities of New Smart Property Investment Group at the date of disposal were as follows:

	2009
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	2,918
Other receivables	1,281
Cash and bank balances	136
Other payables and accruals	(5,552)
Finance lease obligations	(1,875)
Net liabilities disposal of	(3,092)
Gain on disposal of subsidiaries	3,092
Total consideration	–
Net cash outflow arising on disposal:	
Cash received	–
Cash and bank balances disposed of	(136)
	(136)

The impact of New Smart Property Investment Group's results and cash flows for the year ended 31 December 2009 were insignificant.

33. MATERIAL RELATED PARTY TRANSACTIONS

Other than the balances disclosed in notes 12 and 17 to the financial statements, the Group had the following material related party transactions.

Key management personnel compensation

	2010	2009
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**8,513**	11,587
Discretionary bonuses	**358**	–
Retirement scheme contributions	**85**	64
	8,956	11,651

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

34. EVENTS AFTER THE REPORTING PERIOD

(a) On 31 January 2011, the Company and its representative office in Chongqing, the PRC received ten civil claims taken out by ten former employees of the Chongqing Natural Gas Companies issued at the People's Court of Chongqing City Jiang Bei District for an aggregate amount of approximately RMB6,698,000 (the "Employees' Claims"). The Employees' Claims are related to the disputes arising from the termination of the employment of all those ten former employees by the Company and its representative office in August 2009. The total claim amount is approximately RMB6,698,000 which included, inter alia, outstanding salaries, compensation for economic loss arising from the termination of their employment and social security payment. However, the application for the Employees' Claims was rejected by the Chongqing City Labour Dispute Arbitration Committee. Nevertheless, the Purchaser of the Chongqing Natural Gas Companies as referred to in note 12 to the financial statements has confirmed and agreed in writing to take up all responsibilities in handling the Employees' Claims after the completion of disposal of the Chongqing Natural Gas Companies on 24 March 2011. The directors of the Company are of the opinion that the Purchaser shall be estopped from taking action against the Company in relation to the Employees' Claims after completion of the disposal in light of the written confirmation and the Purchaser's actual knowledge of the Employees' Claims. Moreover, the Purchaser has undertaken to the Company that the Purchaser shall refrain from taking legal action against the Company and the directors in relation to the Employees' Claims. Based on the written undertaking provided by the Purchaser, no provision has been made in the financial statements.

(b) On 24 March 2011, the Company completed the disposal of the entire equity interests in Sanxia Gas, together with, Chongqing Natural Gas Companies, at a cash consideration of RMB50 million to a former director of the Company, Mr Tan Chuanrong as detailed in note 12 to the financial statements. This transaction was approved at the extraordinary general meeting of the Company on 15 March 2011.

FINANCIAL SUMMARY

	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Continuing operations:					
Revenues	**46,163**	45,576	49,323	59,458	77,174
(Loss)/profit before taxation	**(21,673)**	(540,107)	471,509	(226,033)	(39,774)
Income tax credit	**31,642**	31,169	2,571	–	63
Profit/(loss) for the year from continuing operations	**9,969**	(508,938)	474,080	(226,033)	(39,711)
(Loss)/profit for the year from discontinued operations, net	**–**	(71,757)	(163,641)	24,464	11,503
Profit/(loss) for the year	**9,969**	(580,695)	310,439	(201,569)	(28,208)
Other comprehensive income for the year	**98,945**	17,709	8,169	16,133	5,325
Total comprehensive income for the year	**108,914**	(562,986)	318,608	(185,436)	(22,883)
Profit/(loss) for the year attributable to:					
Owner of the Company	**9,969**	(580,695)	310,439	(201,547)	(28,208)
Non-controlling interests	**–**	–	–	(23)	–
	9,969	(580,695)	310,439	(201,570)	(28,208)
Assets and liabilities					
Total assets	**4,120,526**	3,795,040	3,983,270	413,203	387,607
Total liabilities	**(2,163,487)**	(2,620,398)	(3,245,042)	(88,083)	(251,080)
Total equity	**1,957,039**	1,174,642	738,228	325,120	136,527