2012 Interim Report

New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

CORPORATE INFORMATION

DIRECTORS

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

Independent Non-Executive Directors
Chan Tsz Kit
Chan Yim Por Bonnie
Wang Li

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

Chan Yim Por Bonnie *(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

The Board of Directors (the "**Board**" or "**Directors**") of New Smart Energy Group Limited (the "**Company**") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2012 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue of continuing operations for the Period was HK$23,010,000 (2011: HK$23,840,000), representing a decrease of 3.48%. Such moderate decrease of revenue was due to the decrease of contribution from both the sales of electronic components and treasury businesses. The revenue generated by the sale of electronic components decreased by 5.14% from HK$16,436,000 in 2011 to HK$15,591,000 in 2012, representing 67.76% of the Group's revenue. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiary ("**CBM Operating Subsidiary**") and the treasury segment contributed HK$1,430,000 (2011: HK$1,389,000) and HK$5,989,000 (2011: HK$6,015,000) to the Group in 2012, representing 6.21% and 26.03% of the Group's revenue respectively. The Group's gross profit from continuing operations decreased by 6.06% to HK$8,619,000 from HK$9,175,000 in 2011.

The Group's loss from continuing operations for the Period was HK$56,621,000 (2011: HK$38,221,000). Substantial part of Group's loss was mainly due to the accounting treatments of various items, such as amortization of the Production Sharing Contract ("**PSC**") amounted to HK$59,781,000 (2011: HK$65,656,000), gain on redemption of convertible notes amounted to HK$25,000 (2011: HK$891,000), fair value gain on convertible notes' embedded derivatives amounted to HK$121,000 (2011: HK$25,286,000), imputed interest on convertible notes amounted to HK$4,705,000 (2011: HK$6,926,000), deferred tax income amounted to HK$14,945,000 (2011: HK$16,414,000). The aggregate net result of the abovementioned accounting loss for 2012 was HK$49,395,000 (2011: HK$29,991,000).

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

For comparison purpose, the loss after tax from continuing operations for 2012 and 2011, if excluding those accounting profit and loss, was HK$7,226,000 and HK$8,230,000 respectively. The decrease in loss of 12.20% was mainly due to the effective control on expenditures during the Period.

The Group recorded a loss attributable to owners of the Company of approximately HK$56,395,000 (2011: HK$3,661,000). The basic and diluted loss per share from continuing and discontinued operations was HK0.85 cents (2011: HK0.11 cents (as restated)). The Directors do not recommend the payment of dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group had current assets of HK$252,159,000 (31 December 2011: HK$308,368,000), current liabilities of HK$59,723,000 (31 December 2011: HK$57,436,000) and cash and bank balances of HK$135,324,000 (31 December 2011: HK$167,752,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 422.21% (31 December 2011: 536.89%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 23.68% (31 December 2011: 23.68%). Net debt is calculated as total borrowings, as shown in the condensed consolidated statement of financial position, less cash and bank balances. Total capital is calculated as total equity, as shown in the condensed consolidated statement of financial position, plus net debt.

In May 2012, convertible notes with principal amount of HK$50,000,000 were redeemed by cash of HK$49,000,000 with a discount of HK$1,000,000 provided by the convertible note holder.

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.

PROPOSED CAPITAL REDUCTION SUBJECT TO COMPLETION

References are made to the announcements dated 2 May 2012 and 27 July 2012 (the "**Announcements**") and the circular dated 4 May 2012 (the "**Circular**") issued by the Company. The Company proposed to reduce the authorized share capital of the Company from HK$2,000,000,000 divided into 25,000,000,000 shares of HK$0.08 each to HK$250,000,000 divided into 25,000,000,000 new shares of HK$0.01 each by cancelling the issued and paid up capital to the extent of HK$0.07 on each of the shares in issue and any further shares which may be issued prior to the date on which the petition for the confirmation of the proposed capital reduction is heard by the Court and by reducing the nominal value of all the issued and unissued shares from HK$0.08 to HK$0.01 each (the "**Proposed Capital Reduction**"). The Proposed Capital Reduction was approved by the shareholders at the extraordinary general meeting held on 29 May 2012. The Company has presented the petition to the Court on 27 July 2012 to seek the Court's confirmation of the Proposed Capital Reduction. The date for the Court hearing of the case management summons (the "**Summons Hearing**") has been fixed on 28 August 2012. The date of the subsequent Court hearing of the petition to confirm the Proposed Capital Reduction will be determined in the Summons Hearing.

PROPOSED CAPITAL REDUCTION SUBJECT TO COMPLETION *(Continued)*

The implementation of the Proposed Capital Reduction is conditional upon the satisfaction of the conditions stated in the paragraph "Conditions of the Proposed Capital Reduction" of the Circular.

Assuming that all conditions have been fulfilled, the Proposed Capital Reduction will become effective, the par value of the shares will be reduced to HK$0.01 per new share and will therefore provide the Company with greater flexibility in pricing the new shares which may be issued in any future equity fund raising exercise. Moreover, the Proposed Capital Reduction will enable the Company to write off its accumulated losses, then the Company's capital and reserves will more closely reflect the available net assets of the Company and would give the Company a capital structure that should, subject to performance, permit the payment of dividends as and when the Directors consider it appropriate in the future.

COMMITMENTS

Details of the commitments of the Group are set out in note 19.

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 20, the Group had no other contingent liabilities as at 30 June 2012.

LITIGATION

The Company had on various dates since January 2011 placed an aggregate amount of HK$85,000,000 (the "**Escrow Sum**") with a solicitor firm in Hong Kong, namely, K & L Gates, as an escrow agent (the "**Escrow Agent**"), of which HK$35,000,000 was intended to be used as earnest moneys to facilitate negotiation with a potential seller of a project for future investments, and under the money lending business of a subsidiary of the Company, a sum of HK$25,000,000 was advanced to a borrower as a loan which was agreed to be held in escrow by the Escrow Agent in January and a further sum of HK$25,000,000 was also advanced to a borrower as a loan in April held in escrow by the Escrow Agent.

As the entire Escrow Sum had fallen due and became payable to the Company on 24 June 2011, despite the Company's repeated requests to K & L Gates for the release of the Escrow Sum, the Company had not received the Escrow Sum as at the date of this report. In early July of 2011, the Company, through its solicitors, took out three separate writs of summons against K & L Gates, claiming for, among other things, the return of the aforementioned three sums which amounted to the Escrow Sum, plus interest and cost. The Company had filed statements of claims and will pursue the cases vigorously.

The Directors are of the opinion, based on the legal advice sought, that the Escrow Sum can be recovered in full.

Save as disclosed above, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Company is engaged or pending or which was threatened against the Company.

CHARGED ON ASSETS

The short-term bank deposits, amounted to HK$3,180,000, have been pledged as securities for banking facilities granted to the continuing operation of the Group as at 30 June 2012.

EVENT AFTER THE END OF THE INTERIM PERIOD

Save as disclosed in note 21, the Group had no other event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group had 51 employees, of which 24 were in Hong Kong and 27 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the Period.

BUSINESS REVIEW

Coalbed Methane ("CBM") Business

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

Started from 2010, Can-Elite engaged professionals to conduct various experiments on experimental wells and analyze the data collected in order to improve the existing drilling methods and exploitation technologies. In 2011, our experts conducted a detailed analysis on the geological information of Su'nan area and the existing drilling information for CBM wells, and confirmed the resources of that area. Drilling work enhancement proposal and new well drilling proposal were worked out. Since late 2011, Can-Elite placed focus on the drilling of 3 new exploration experimental wells according to this new well drilling proposal and the drilling was completed at the end of the Period. In order to fulfil the exploration work commitment and increase the chance of successful commercial discovery of CBM, our experts and technical teams continued to conduct geological and geophysical studies, drilling and testing on these new wells. They will keep on doing the preliminary economic assessment within the Contract Area and designing proposals aiming at increasing production and method of exploitation for the new wells based on the fundamental idea of the enhancement proposal worked out in 2010 and 2011.

BUSINESS REVIEW *(Continued)*

Coalbed Methane ("CBM") Business *(Continued)*

As at the Period end, the Group had 15 experimental wells, of which 7 wells were under production and 1 parametric well in the Contract Area.

In this Period, the CBM business contributed about HK$1,430,000 of the revenue (2011: HK$1,389,000). A loss of HK$68,502,000 (2011: HK$49,969,000) was recorded mainly resulting from the amortization of PSC of HK$59,781,000 (2011: HK$65,656,000).

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**"), continued to engage in securities and debts trading in Hong Kong with a view for short to medium term profit. For the period ended 30 June 2012, Magic Chance invested in various financial instruments amounted to approximately HK$12,000,000.

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

During the Period, this segment generated steady revenue with amount of approximately HK$6,000,000. The Board believes that the money lending business will give the Group an opportunity to obtain a higher return for its surplus funds under the current low interest rate environment.

Electronic Components Business

The Group, through its non-wholly-owned subsidiary, Strong Way International Limited, operates the design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the PRC. In these years, the electronic components business faced intense competition and the revenue was continuously adversely affected by the declining of electronic components market. This segment recorded a decrease of revenue of HK$845,000 from HK$16,436,000 in 2011 to HK$15,591,000 in 2012. The Group may consider streamlining its operation and adopting effective cost management measures to maintain its competitive edge.

PROSPECTS

With the effort of the on-going progress in exploration, further investment in drilling, exploitation and fracturing technology research and the participation of China United, it is expected that the amount of CBM extracted from the newly drilled wells can reach our target capacity in next few years. Once the joint management committee, which is composed of representatives from both Can-Elite and China United, determined the commercial viability of CBM, our Company will make use of the existing drilled wells to apply for a reserve estimation report for part of the area, and submit the said report to the National Reserve Estimation Committee (國家儲量評估委員會). The said report shall be used to apply for the approval of a development plan from the National Development and Reform Commission (中華人民共和國國家發展和改革委員會), which shall allow us to commence commercial development for that part of the area.

The Board expects that, when the CBM area in Anhui commences production, the Group will have remarkable improvement and enhance value for shareholders. More importantly, the Group can have chance to become one of the CBM suppliers, to develop and provide clean energy so as to create a better environment.

To capture with the opportunity given by the "Twelve Five-Year Plan for CBM Development and Utilization" announced by the PRC Ministry of Energy in late 2011, the Group, through a new wholly-owned energy technology subsidiary set up in the PRC in this Period, would jointly work with other coalbed methane operators to commence the development and utilization business of coalbed methane (coal mine gas) resources with a view to expand the Group's market size and growth prospects in the coalbed methane sector.

Although the US and European sovereign debt crises and global inflation have added instabilities and uncertainties to the economy growth, the Board is optimistic about its future development based on the sound economic conditions in Hong Kong and the PRC. The Group would also continue to develop its treasury business with a conservative approach and manages the risks at a relatively low level.

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 Period or at any time during the Period.

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

As at 30 June 2012, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

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

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

Save as disclosed above, as at 30 June 2012, none of the Directors and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2012, 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.

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
HSBC International Trustee Limited	Trustee	450,000,000	–	6.78%
Leung Yuk Kit	Corporate	461,100,000	–	6.95%
New Alexander Limited *(Note)*	Beneficial	–	548,387,096	8.26%
Smart Dragon Global Limited	Beneficial	1,183,125,000	–	17.82%
Tung Tai Finance Limited	Beneficial	450,000,000	–	6.78%

Note: As at 30 June 2012, New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due 2013 in an aggregate outstanding amount of HK$680,000,000.

CORPORATE GOVERNANCE

The Stock Exchange has issued the amendments on Corporate Governance Code in Appendix 14 to the Main Board Listing Rules (the "**CG Code**") effective on 1 April 2012.

To fully comply with the new code provisions and, where applicable, the recommended best practices set out in the CG Code, relevant amendments and adoptions has been adopted by the Company on 1 April 2012.

The Company had complied with the Code on Corporate Governance Practices (effective until 31 March 2012) and the CG Code (effective from 1 April 2012) throughout the Period with the following major deviations:–

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

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

CORPORATE GOVERNANCE *(Continued)*

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

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 during the Period.

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.

Leadership for the Board (Deviation from Code Provision A.2.4)

Under the new code provision A.2.4, the chairman should provide leadership for the board. The chairman should ensure that the board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner.

Mr. Tong Nai Kan had not acted as the chairman of the board meetings held during the Period, which constitutes a deviation from the code provision A.2.4 during the Period.

Though Mr. Tong did not act as the chairman of some board meetings, other member of the board would act as chairman to ensure that the board works effectively and Mr. Tong would participate in those meetings.

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 independent non-executive Directors (the "**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 Company's articles of association (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 CG Code.

CORPORATE GOVERNANCE *(Continued)*

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 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.

Attendance of Non-executive Directors at General Meetings (Deviation from Code Provision A.6.7)

Under the new code provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and development a balanced understanding of the views of shareholders.

Due to an overseas commitment, Mr. Wang Li, an INED, did not attend the annual general meeting and extraordinary general meeting both held on 29 May 2012, which constitutes a deviation from the code provision A.6.7 during the Period.

Communication with Shareholders (Deviation from Code Provision E.1.2)

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 29 May 2012 (the "**AGM**"), which constitutes a deviation from the code provision E.1.2 during the Period. Mr. Tam Tak Wah, the executive Director, was elected as the chairman of the AGM pursuant to the Articles.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

REVIEW OF INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises all the INEDs including Mr. Chan Tsz Kit, Mr. Chan Yim Por Bonnie and Mr. Wang Li.

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

ACKNOWLEDGEMENT

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

By order of the Board
New Smart Energy Group Limited
Tong Nai Kan
Chairman

Hong Kong, 22 August 2012

CCIF

CCIF CPA LIMITED
陳葉馮會計師事務所有限公司
34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

TO THE BOARD OF DIRECTORS OF
NEW SMART ENERGY GROUP LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction
We have reviewed the interim financial information set out on pages 16 to 38, which comprises the condensed consolidated statement of financial position of New Smart Energy Group Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2012 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 22 August 2012

Leung Chun Wa
Practising Certificate Number P04963

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Unaudited Six months ended	
		30 June 2012	30 June 2011
	Note	***HK$'000***	*HK$'000*
Continuing operations			
Turnover	3	**20,987**	24,425
Revenue	3	**23,010**	23,840
Cost of sales		**(14,391)**	(14,665)
Gross profit		**8,619**	9,175
Other income		**2,767**	2,586
Fair value gain on convertible notes' embedded derivatives	16	**121**	25,286
Gain on redemption of convertible notes	16	**25**	891
Administrative expenses		**(18,515)**	(19,958)
Amortisation of production sharing contract	11	**(59,781)**	(65,656)
Finance costs	5	**(4,747)**	(6,959)
Loss before taxation	4	**(71,511)**	(54,635)
Income tax	6	**14,890**	16,414
Loss for the period from continuing operations		**(56,621)**	(38,221)
Discontinued operation			
Gain from sale of disposal group held for sale	8	**–**	34,419
Loss for the period		**(56,621)**	(3,802)

	Note	Unaudited Six months ended 30 June 2012 HK$'000	30 June 2011 HK$'000
Loss for the period attributable to:			
Owners of the Company		**(56,395)**	(3,661)
Non-controlling interests		**(226)**	(141)
		(56,621)	(3,802)
(Loss)/earnings per share			(Restated)
(expressed in HK cents)	9		
From continuing and discontinued operations			
– Basic and diluted		**(0.85)**	(0.11)
From continuing operations			
– Basic and diluted		**(0.85)**	(1.15)
From discontinued operation			
– Basic and diluted		**–**	1.04

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Unaudited Six months ended	
		30 June 2012	30 June 2011
	Note	***HK$'000***	*HK$'000*
Loss for the period		**(56,621)**	(3,802)
Other comprehensive income			
Exchange differences:			
– arising on translation		**15,672**	53,559
– reclassification of exchange reserve included in gain on sale of disposal group held for sale		**–**	(28,287)
Total comprehensive (loss)/income for the period (net of tax)		**(40,949)**	21,470
Attributable to:			
Owners of the Company		**(40,723)**	21,611
Non-controlling interests		**(226)**	(141)
		(40,949)	21,470

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	**Unaudited 30 June 2012 *HK$'000***	Audited 31 December 2011 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	10	**46,622**	44,242
Intangible assets	11	**3,157,901**	3,196,933
Available-for-sale financial assets		**1,000**	1,000
		3,205,523	3,242,175
Current assets			
Inventories		**35**	–
Financial assets at fair value through profit or loss	12	**25,490**	21,772
Loan receivable		**–**	30,000
Trade and other receivables	13	**91,310**	88,844
Cash and bank balances		**135,324**	167,752
		252,159	308,368
Total assets		**3,457,682**	3,550,543
EQUITY			
Share capital	14	**531,078**	531,078
Reserves		**1,371,719**	1,412,442
Equity attributable to owners of the Company		**1,902,797**	1,943,520
Non-controlling interests		**(1,371)**	(1,145)
Total equity		**1,901,426**	1,942,375

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	**Unaudited 30 June 2012 *HK$'000***	Audited 31 December 2011 *HK$'000*
LIABILITIES			
Non-current liabilities			
Convertible notes – unsecured	16	**707,058**	751,499
Deferred tax liabilities	17	**789,475**	799,233
		1,496,533	1,550,732
Current liabilities			
Other borrowings, unsecured	15	**18,366**	19,069
Trade and other payables	18	**39,213**	35,689
Tax payable		**2,144**	2,678
		59,723	57,436
Total liabilities		**1,556,256**	1,608,168
Total equity and liabilities		**3,457,682**	3,550,543
Net current assets		**192,436**	250,932
Total assets less current liabilities		**3,397,959**	3,493,107

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Special capital reserve *HK$'000*	Other capital reserve *HK$'000*	Investment reserve *HK$'000*	Exchange reserve *HK$'000*	Statutory reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2012	**531,078**	**1,397,856**	**5,318**	**492,172**	**1,805**	**–**	**213,604**	**6,170**	**(704,483)**	**1,943,520**	**(1,145)**	**1,942,375**
Loss for the Period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(56,395)**	**(56,395)**	**(226)**	**(56,621)**
Other comprehensive income												
Exchange difference arising on translation	**–**	**–**	**–**	**–**	**–**	**–**	**15,672**	**–**	**–**	**15,672**	**–**	**15,672**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**15,672**	**–**	**(56,395)**	**(40,723)**	**(226)**	**(40,949)**
At 30 June 2012 (unaudited)	**531,078**	**1,397,856**	**5,318**	**492,172**	**1,805**	**–**	**229,276**	**6,170**	**(760,878)**	**1,902,797**	**(1,371)**	**1,901,426**
At 1 January 2011	265,539	1,350,151	5,318	492,172	1,805	949	146,494	6,170	(311,086)	1,957,512	(473)	1,957,039
Transfer	–	–	–	–	–	–	–	(6,170)	6,170	–	–	–
Loss for the Period	–	–	–	–	–	–	–	–	(3,661)	(3,661)	(141)	(3,802)
Other comprehensive income												
Exchange differences:												
– arising on translation	–	–	–	–	–	–	53,559	–	–	53,559	–	53,559
– reclassification adjustment for sale of disposal group	–	–	–	–	–	–	(28,287)	–	–	(28,287)	–	(28,287)
Total comprehensive income for the period	–	–	–	–	–	–	25,272	–	(3,661)	21,611	(141)	21,470
At 30 June 2011 (unaudited)	265,539	1,350,151	5,318	492,172	1,805	949	171,766	–	(308,577)	1,979,123	(614)	1,978,509

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Unaudited Six months ended	
	30 June 2012 *HK$'000*	30 June 2011 *HK$'000*
Net cash generated from/(used in) operating activities	**11,382**	(8,023)
Net cash generated from/(used in) investing activities	**6,104**	(55,821)
Net cash used in financing activities	**(49,745)**	(110,753)
Net decrease in cash and cash equivalents	**(32,259)**	(174,597)
Cash and cash equivalents at beginning of period	**167,752**	346,803
Effect of foreign exchange rate changes	**(169)**	(697)
Cash and cash equivalents at end of period	**135,324**	171,509

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial information has been prepared on the historical cost convention except for available-for-sale financial assets, financial assets at fair value through profit or loss and embedded derivatives in convertible notes, which are stated at fair values.

The accounting policies used in the unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2011, except for the adoption of the standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for accounting periods beginning 1 January 2012. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results or financial position.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

	Unaudited Six months ended	
	30 June 2012 *HK$'000*	30 June 2011 *HK$'000*
Turnover:		
Sales of electronic components	**15,591**	16,436
Sales of coalbed methane products	**1,430**	1,389
Proceeds from trading of securities	**508**	–
Interest income from money lending	**3,458**	6,600
	20,987	24,425

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The Group's operating segments, based on information reported to the chief operating decision maker (the "**CODM**") for the purposes of resource allocation and performance assessment are as follows:

Continuing operations:

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

Discontinued operation (note 8):

– Natural gas

(i) Segment results

For the purpose of assessing segment performance and allocating resources between segments, the CODM monitors the results 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' emoluments). Taxation charge is not allocated to reportable segment.

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

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

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

Six months ended 30 June 2012 (unaudited)

	Continuing operations				Discontinued operation	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Sub-total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**15,591**	**1,430**	**5,989**	**23,010**	**–**	**23,010**
Reportable segment results – profit/(loss)	**(566)**	**(68,502)**	**5,773**	**(63,295)**		**(63,295)**
Other information:						
Amortisation for the period	**–**	**59,781**	**–**	**59,781**	**–**	**59,781**
Depreciation for the period	**–**	**1,485**	**35**	**1,520**	**–**	**1,520**
Gain on redemption of convertible notes	**–**	**(25)**	**–**	**(25)**	**–**	**(25)**
Other income	**(53)**	**(266)**	**(592)**	**(911)**	**–**	**(911)**
Interest expenses	**38**	**4,705**	**4**	**4,747**	**–**	**4,747**
Major non-cash item:						
– Fair value change of convertible notes' embedded derivatives	**–**	**(121)**	**–**	**(121)**	**–**	**(121)**

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Six months ended 30 June 2011 (Unaudited)

	Continuing operations				Discontinued operation	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Sub-total *HK$'000*	Natural gas *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	16,436	1,389	6,015	23,840	–	23,840
Reportable segment results – profit/(loss)	(353)	(49,969)	5,955	(44,367)	34,419	(9,948)
Other information:						
Amortisation for the period	–	65,656	–	65,656	–	65,656
Depreciation for the period	5	1,405	19	1,429	–	1,429
Gain on redemption of convertible notes	–	(891)	–	(891)	–	(891)
Gain from sale of disposal group held for sale	–	–	–	–	(34,419)	(34,419)
Other income	–	(1,466)	(867)	(2,333)	–	(2,333)
Interest expenses	33	6,926	–	6,959	–	6,959
Major non-cash item:						
– Fair value change of convertible notes' embedded derivatives	–	(25,286)	–	(25,286)	–	(25,286)

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

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

	Unaudited Six months ended 30 June 2012 HK$'000	30 June 2011 HK$'000
Revenue		
Continuing operations:		
Consolidated revenue from continuing operations	**23,010**	23,840
Profit or loss		
Continuing operations:		
Reportable segment loss	**(63,295)**	(44,367)
Other income	**1,856**	253
Unallocated head office and corporate expenses	**(10,072)**	(10,521)
Consolidated loss from continuing operations before tax	**(71,511)**	(54,635)
Discontinued operation:		
Reportable segment profit	**–**	34,419

(iii) Geographical information

	Continuing operations		Discontinued operation	
	Hong Kong HK$'000	PRC HK$'000	PRC HK$'000	Total HK$'000
For the six months ended 30 June 2012 (Unaudited)				
Revenue	21,580	1,430	–	23,010
For the six months ended 30 June 2011 (Unaudited)				
Revenue	22,451	1,389	–	23,840

4. LOSS BEFORE TAXATION

Loss before taxation from continuing operations is arrived at after charging/(crediting):

	Unaudited Six months ended 30 June 2012 HK$'000	30 June 2011 HK$'000
Staff costs (including directors' emoluments)		
– Salaries and other emoluments	**9,996**	9,272
– Contributions to retirement scheme	**283**	161
	10,279	9,433
Depreciation of property, plant and equipment	**1,860**	2,058
Amortisation on production sharing contract	**59,781**	65,656
Operating lease charges in respect of land and buildings	**1,292**	1,605
Gain on disposal of property, plant and equipment	**(65)**	–
Cost of inventories sold	**14,391**	14,665

5. FINANCE COSTS

	Unaudited Six months ended 30 June 2012 HK$'000	30 June 2011 HK$'000
Continuing operations:		
Interest expenses on the following borrowings wholly repayable within five years:		
– Imputed interest on convertible notes	**4,705**	6,926
– Interest on bank overdrafts	**42**	33
	4,747	6,959

6. INCOME TAX

	Unaudited Six months ended 30 June 2012 HK$'000	30 June 2011 HK$'000
Continuing operations:		
Current taxation		
Provision for the period	**55**	–
Deferred tax liabilities *(note 17)*	**(14,945)**	(16,414)
Tax credit	**(14,890)**	(16,414)

Notes:

(a) No Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the six months ended 30 June 2012 (2011: Nil).

(b) The Group's subsidiaries in the People's Republic of China (the "**PRC**") are subject to PRC corporate income tax rate of 25% (2011: 25%) for the six months ended 30 June 2012.

(c) Deferred tax liabilities arose from the reversal of the temporary difference arising from the amortisation of the production sharing contract in respect of PSC as referred to in note 11 to the financial statements.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2012 (2011: Nil).

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

On 24 March 2011, the Company completed the disposal of the entire equity interest in Sanxia Gas (BVI) Investment Limited and its subsidiaries at a cash consideration of RMB50 million (approximately HK$59,400,000) to a former director of the Company, Mr Tan Chuanrong.

Gain on disposal of discontinued operation was as follows:

	Unaudited Six months ended 30 June 2012	**Unaudited Six months ended 30 June 2011**
	HK$'000	*HK$'000*
Assets of a discontinued operation and disposal group classified as held for sale	–	97,117
Liabilities of a discontinued operation and disposal group classified as held for sale	–	(45,741)
Net assets disposed of	–	51,376
Direct costs relating to the disposal	–	1,892
Exchange reserve realised	–	(28,287)
Gain on sale of disposal group	–	34,419
Cash consideration	–	59,400
Net cash inflow arising on disposal		
Cash consideration	–	59,400
Bank balances and cash disposed of	–	(9,983)
	–	49,417

9. (LOSS)/EARNINGS PER SHARE

(a) Basic

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to owners of the Company divided by the weighted average of 6,638,473,206 ordinary shares in issue during the current period (six months ended 30 June 2011: 3,319,236,603 ordinary shares as restated after adjusting the effect of the share consolidation on 19 September 2011).

	Unaudited Six months ended 30 June 2012 *HK$'000*	30 June 2011 *HK$'000*
Loss used in the calculation of total basic loss per share from continuing and discontinued operations	**(56,395)**	(3,661)
Profit used in the calculation of basic earnings per share from discontinued operation	**–**	34,419
Loss used in the calculation of basic loss per share from continuing operations	**(56,395)**	(38,080)

		(Restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share:		
Issued ordinary shares at 1 January	**6,638,473,206**	3,319,236,603
Weighted average number of ordinary shares at 30 June	**6,638,473,206**	3,319,236,603

(b) Diluted

The diluted (loss)/earnings per share for the periods ended 30 June 2012 and 2011 is same as the basic (loss)/earnings per share as the conversion price of outstanding convertible notes was higher than the average market price of the Company's share and accordingly, there was no dilutive effect on the basic (loss)/earnings per share for both periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Property, plant and equipment *HK$'000*
Carrying amount as at 1 January 2012	44,242
Changes in exchange rates	279
Additions	4,461
Disposal	(500)
Depreciation	(1,860)
Carrying amount as at 30 June 2012	46,622

11. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2011	3,896,426
Exchange adjustments	139,630
At 31 December 2011 and 1 January 2012	4,036,056
Exchange adjustments	26,183
At 30 June 2012	4,062,239
Accumulated amortisation	
At 1 January 2011	270,585
Charge for the year	132,870
Impairment loss	424,306
Exchange adjustments	11,362
At 31 December 2011 and 1 January 2012	839,123
Charge for the period	59,781
Exchange adjustments	5,434
At 30 June 2012	904,338
Carrying amount	
At 30 June 2012 (unaudited)	3,157,901
At 31 December 2011 (audited)	3,196,933

The PSC is amortised on straight-line basis over the remaining contract terms of 26.9 years of the PSC.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Equity securities held for trading:		
– Listed in Hong Kong	**25,490**	11,478
Designated upon initial recognition:		
– Unlisted convertible notes	**–**	10,294
	25,490	21,772

The fair values for the above listed securities are determined by reference to their last closing quoted market bid prices available on the relevant exchange at the end of the reporting period.

Fair value gain of HK$2,483,000 has been recognised in the condensed consolidated income statement for the period ended 30 June 2012.

13. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Trade receivables	**4,442**	2,086
Provision for impairment	**(332)**	(332)
	4,110	1,754
Other receivables *(note (a))*	**85,227**	85,364
Deposits and prepayments	**1,973**	1,726
	91,310	88,844

Note:

(a) Included in other receivables is an aggregate balance of HK$85,000,000 which was placed at the escrow account of a firm of solicitors, which acts as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of the escrow sum of HK$85,000,000 as referred to in note 20 (a). The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sum can be recovered in full, and therefore, no impairment is required as at 30 June 2012.

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

13. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Current	**3,483**	1,283
Less than 1 month past due	**602**	422
1 to 3 months past due	**25**	49
	4,110	1,754

14. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares** *HK$'000*
Authorised:		
At 1 January 2011 of HK$0.04 each	50,000,000,000	2,000,000
Share consolidation	(25,000,000,000)	–
At 31 December 2011 and 30 June 2012 of HK$0.08 each	25,000,000,000	2,000,000
Issued and fully paid:		
At 1 January 2011	6,638,473,206	265,539
Share consolidation	(3,319,236,603)	–
Issue of new shares upon open offer	3,319,236,603	265,539
At 31 December 2011 and 30 June 2012	6,638,473,206	531,078

15. OTHER BORROWINGS

Other borrowings are payable to an independent third party, unsecured and repayable on demand.

16. CONVERTIBLE NOTES

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

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

The fair value of the liability portion and embedded derivatives portion of the convertible notes were determined as of the date of issue by a firm of independent professional valuers, Asset Appraisal Limited. The liability component of the convertible notes was carried at amortised cost method using an effective interest rate of 1.29% per annum which was determined at the issue date with reference to similar market borrowings that do not have conversion rights. As at 30 June 2012, the fair value of the embedded derivatives portion of the convertible notes was revalued by a firm of independent professional valuers, Cushman & Wakefield Valuation Advisory Services (HK) Ltd, at HK$1. The decrease in fair value of the embedded derivatives of HK$121,000 has been recognised and credited to the condensed consolidated income statement for the period ended 30 June 2012. On 17 May 2012, the Company redeemed convertible notes with principal value of HK$50,000,000 and carrying amount of liability component at amortised cost of HK$49,025,000 with negligible fair value of embedded derivatives portion, at a consideration of HK$49,000,000 based on an arm's length negotiation with the convertible note holder, resulting in a gain on redemption of HK$25,000 recognised in profit or loss for the period ended 30 June 2012.

At 30 June 2012, the principal amount of outstanding convertible notes is HK$720,000,000 (31 December 2011: HK$770,000,000).

16. 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:

	Embedded derivatives portion *HK$'000*	Liability portion *HK$'000*	Total *HK$'000*
Carrying amount of convertible notes (with principal value of HK$1,162,417,000) as at 1 January 2011	32,290	1,119,752	1,152,042
Imputed interest charged to condensed consolidated income statement	–	12,940	12,940
Decrease in fair value credited to condensed consolidated income statement	(29,978)	–	(29,978)
Redemption	(2,191)	(381,314)	(383,505)
Carrying amount of convertible notes (with principal value of HK$770,000,000) as at 31 December 2011 and 1 January 2012	121	751,378	751,499
Imputed interest charged to condensed consolidated income statement	–	4,705	4,705
Decrease in fair value credited to condensed consolidated income statement	(121)	–	(121)
Redemption	–	(49,025)	(49,025)
Carrying amount of convertible notes (with principal value of HK$720,000,000) as at 30 June 2012	–	707,058	707,058

17. DEFERRED TAX LIABILITIES

	HK$'000
At 1 January 2011	906,460
Credited to condensed consolidated income statement	(139,294)
Exchange adjustments	32,067
At 31 December 2011 and 1 January 2012	799,233
Credited to condensed consolidated income statement	(14,945)
Exchange adjustments	5,187
At 30 June 2012	789,475

At 30 June 2012, the recognised deferred tax liabilities represented the tax effect of the fair value adjustments on the business combination completed in 2008.

18. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Trade payables	**9,387**	3,980
Other payables	**29,574**	28,456
Accrued operating expenses	**252**	3,253
	39,213	35,689

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

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Current-within 1 month	**3,720**	1,026
More than 1 month but within 3 months	**5,264**	2,204
More than 3 months but within 6 months	**105**	240
More than 6 months	**298**	510
	9,387	3,980

19. COMMITMENTS

(i) Capital commitments

Capital commitments as at 30 June 2012 not provided for in the financial statements were as follows:

	Unaudited 30 June 2012 *HK$'000*	Audited 31 December 2011 *HK$'000*
Production sharing contract:		
– Authorised and not contracted for	**–**	413
– Contracted but not provided for	**34,608**	31,610
	34,608	32,023

19. COMMITMENTS *(Continued)*

(ii) Operating lease commitments

At 30 June 2012, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2012	Audited 31 December 2011
	HK$'000	*HK$'000*
Within 1 year	**2,485**	658
After 1 year but within 5 years	**2,282**	60
	4,767	718

20. CONTINGENT LIABILITIES

(a) Legal contingencies

The Group is the plaintiff in legal proceedings against a firm of solicitors in Hong Kong, who acts as an escrow agent for the Group, for the return of an aggregate escrow amount of HK$85,000,000 placed with the escrow agent. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sums can be recovered in full, and therefore, no impairment is required as at 30 June 2012.

(b) Environmental Contingencies

The Group has not incurred any significant expenditure for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants irrespectively of whether they are operating, closed or sold; (ii) the extent of required clean-up 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.

21. EVENT AFTER THE END OF THE INTERIM PERIOD

Subsequent to the end of reporting period, the Company redeemed convertible notes of principal value of HK$25,000,000 with carrying amount of liability component at amortised cost of HK$24,558,000 with negligible fair value of embedded derivatives portion, at the consideration of HK$24,500,000.