2012 ANNUAL REPORT

New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

CONTENTS

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
9/F, Leighton Centre
77 Leighton Road
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

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 2012.

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.

Since late 2010, Can-Elite engaged professionals to conduct various experiments on these experimental wells and analyzed the data collected in order to improve the existing drilling methods and exploitation technologies. In early 2011, our experts have conducted a detailed analysis on the geological information of Su'nan area and the existing drilling information for CBM wells, and have confirmed the resources of that area. They have also provided a drilling work enhancement proposal. In 2012, Can-Elite drilled 5 exploration experimental wells, carried fracturing and enhancement work at 6 wells, as well as open hole drilling at 1 well. Through the above experimental projects, the scale of fracturing work suitable for the experimental area, timing for inserting balls and technologies to control drainage and collection is basically confirmed. With the technologies being processed, Can-Elite will continue to engage CBM research institutes and experts in 2013, with an aim to expand the experimental area, as well as to increase the number of experimental wells and contents of our experiments, so as to formulate one or more drilling and exploitation plans that can be adopted in the area.

As at the end of 2012, Can-Elite drilled a total of 17 exploration wells, 7 of which has commenced production. Can-Elite has gathered lots of exploration data and has principally satisfied the requirement of gathering reserve information of some areas. At present, Can-Elite has engaged China United to estimate the amount of reserve, and a reserve estimation report is expected to be submitted to the National Reserve Estimation Committee by the end of 2013. Once the National Reserve Estimation Committee approves the report, commercial development in those areas can be started. At the same time, as the five-year exploration period in Su'nan area will expire in 2013, in order to continue the exploring work on the remaining areas and to obtain relevant reserve estimation reports, Can-Elite has applied to China United for the extension of the exploration period.

Under the exploration stage, the CBM business contributed about HK$2,762,000 of the revenue in this year (2011: HK$2,847,000). A loss of HK$239,314,000 was recorded mainly resulting from the amortization of PSC of HK$119,493,000 (2011: HK$132,870,000) and the impairment loss on PSC amounted to HK$100,650,000 (2011: HK$424,306,000). In order to minimize the investment risk arising from the special geological conditions at the Contract Area, Can-Elite has reduced the number of wells drilled since 2012 and adjusted its drilling plan and business plan for exploration and exploitation of CBM for the coming years accordingly. Thus, impairment loss is recognised.

Shenzhen Clouds Energy Technology Limited ("**Shenzhen Clouds**"), another wholly-owned subsidiary of the Group, was incorporated in Shenzhen in mid-2012, which specializes in the technology services for CBM development and utilization, provision of comprehensive CBM development and utilization solution, as well as investment and operation of liquefied natural gas (LNG) factory and compressed natural gas (CNG) factory.

Shenzhen Clouds has a team of experts who possess advanced technologies and in-depth experiences in this field. During the year, Shenzhen Clouds has entered into strategic cooperation agreement with certain consultants with a view to apply their patented drilling technologies in the PRC and transform those technologies into scale production.

Treasury Business

The Group, through its wholly-owned subsidiary Magic Chance Investments Limited ("**Magic Chance**"), engages in securities and debts trading in Hong Kong with a view for short to medium term profit. For the year ended 31 December 2012, Magic Chance invested over HK$30,000,000 in various financial instruments; a profit of HK$432,000 (2011: loss of HK$2,280,000) is recorded.

New Smart Credit Service Limited ("**New Smart Credit**"), another wholly-owned subsidiary of the Group, carries on money lending business in Hong Kong. The Group diversifies its money lending business by providing both corporate and personal loans that were secured or unsecured. 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. For the year ended 31 December 2012, this segment generated revenue with amount of approximately HK$3,458,000, a significant decrease from HK$10,012,000 in 2011.

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. For the year ended 31 December 2012, this segment contributed HK$31,042,000 (2011: HK$25,796,000) to the Group and recorded a loss of HK$1,817,000 (2011: HK$2,028,000). The Group may consider continuing to streamline its operation and adopt effective cost management measures to maintain its competitive edge.

PROSPECTS

The PRC Ministry of Energy has recently promulgated the "Policies for CBM Industry" in March 2013, which has clearly stated the guiding policies for the present and future development of the CBM industry. The promulgation and implementation of such policies has a long term effect on the scientific and efficient development and utilization of CBM resources, as well as the promotion of healthy and sustainable development of the CBM industry.

The Group will continue the research on drilling and exploration proposal for new wells through Can-Elite. Due to the special geological conditions at the Contract Area, there is a need for Can-Elite to keep researching for an economic drilling and exploration proposal that only requires low input but can generate high output. It is expected that after the submission of the reserve report to National Reserve Estimation Committee by the end of 2013, production wells can be explored in the area covered by the report, and thus products can be sold for cash returns.

In order to become a recognized expert in the industry, the Group has enlarged its professional team for CBM business. It is expected that a number of mine cooperation projects will be rolled out by Shenzhen Clouds in 2013, and will try the best to put them into commercial operation so as to bring cash income to the Group. In the PRC, there are more than one hundred mines that have potential for cooperation. In the coming five years, it is expected that Shenzhen Clouds will use the production sharing mode for its CBM technologies to cooperate with these mines. At the same time, it will provide technologies and expert services to other CBM operators, with an aim to enhance its market position, enlarge exploitation scale, solve environmental problems and alleviate the problem of natural gas shortage.

Meanwhile, the Group will pay close attention to the business opportunities brought alone by the policy of the US to increase its self-sufficient rate in oil and explore the development potential of old oil farms. Regular contact with the relevant people in the US will be kept so as to explore cooperation projects in the reexamination and development of old oil farms in Texas and California of the US.

For the treasury business, 廣東碩華投資有限公司 (“**廣東碩華**”), a wholly-owned subsidiary of the Group established in Guangzhou in late 2012, will leverage on the strengths of the Group as well as our financing and investment abilities, and to make full use of our extensive and rich social resources and business foundation to carry out its business. It will deploy its resources according to the country's “12th Five-Year Plan” for the development and reformation of financial industry, to start its business by cooperating with financial institutions to explore short term small loan business, invest in target enterprises or projects, provision of fund management, securities services and listing consultation services as well as engage in other businesses.

Although the US and European sovereign debt crises and global inflation have added instabilities and uncertainties to the growth of the economy, the Board believes that Hong Kong still has advantages as a financial centre in Asia and globally, especially with the full support from the PRC central government. The Group will also continue to develop its treasury business with a conservative approach 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, 26 March 2013

FINANCIAL REVIEW

The Group's turnover of continuing operations for the year was HK$37,796,000 (2011: HK$48,264,000), representing a decrease of 21.69%. Such decrease of turnover was due to the decreased contribution from the treasury business where the Group engaged in securities and debts trading and money lending business in Hong Kong. The turnover generated by the sales of electronic components increased by 20.34% from HK$25,796,000 in 2011 to HK$31,042,000 in 2012, representing 82.13% of the Group's turnover. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiary ("**CBM Operating Subsidiary**") and treasury segment contributed HK$2,762,000 (2011: HK$2,847,000) and HK$3,992,000 (2011: HK$19,621,000) to the Group in 2012, representing 7.31% and 10.56% of the Group's turnover respectively. The Group's gross profit of continuing operations decreased by 34.26% to HK$8,619,000 from HK$13,111,000 in 2011.

The Group's loss from continuing operations for the year was HK$202,957,000 (2011: HK$428,488,000). Substantial part of the Group's performance was mainly due to the accounting treatments of various items, such as the impairment loss on production sharing contract amounted to HK$100,650,000 (2011: HK$424,306,000), gain on redemption of convertible notes amounted to HK$83,000 (2011: HK$1,587,000), fair value gain on convertible notes' embedded derivatives amounted to HK$121,000 (2011: HK$29,978,000), imputed interest on convertible notes amounted to HK$9,177,000 (2011: HK$12,940,000), amortization of the PSC in respect of CBM amounted to HK$119,493,000 (2011: HK$132,870,000), and the tax credit amounted to HK$54,345,000 (2011: HK$136,616,000). The aggregate net result of the abovementioned accounting loss for 2012 is HK$174,771,000 (2011: HK$402,627,000).

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 2012 and 2011, if excluding those accounting profit and loss, was HK$28,186,000 and HK$25,861,000 respectively. The increase in loss of 8.99% was mainly due to the decreased contribution from the treasury segment, i.e. in particular, the money lending business, with a comparatively high profit margin.

The Group recorded a loss attributable to owners of the Group of approximately HK$202,223,000 (2011: HK$393,397,000), and basic and diluted loss per share from continuing and discontinuing operations was approximately HK3.05 cents (2011: HK9.99 cents). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group had current assets of HK$199,144,000 (2011: HK$308,368,000) and current liabilities of HK$752,879,000 (2011: HK$57,436,000) and cash and bank balances of HK$81,686,000 (2011: HK$167,752,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 26.45% (2011: 536.89%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 26.21% (2011: 23.68%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In May and July 2012, convertible notes with aggregate principal amount of HK$75,000,000 were redeemed by cash of HK$73,500,000 with a discount of HK$1,500,000 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.

COMMITMENTS

Details of the commitments of the Group are set out in note 32.

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.

CONTINGENCIES

Save as disclosed in note 33, the Group had no other contingencies as at 31 December 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 been 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 this report date. 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 file 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.

CHARGE 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 operations of the Group for the year ended 31 December 2012.

CAPITAL REDUCTION

On 9 October 2012, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 29 May 2012, 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$0.08 to HK$0.01 each by cancelling capital paid up or credited as paid up to the extent of HK$0.07 upon each of the shares of the Company. The capital reduction was completed and became effective on 12 October 2012. The credit of HK$464,693,000 arising from the capital reduction was credited to the accumulated losses of the Company of HK$377,066,000 and a special reserve of HK$87,627,000.

RESTRUCTURING OF CONVERTIBLE NOTES DUE 2013 AND ISSUE OF NEW CONVERTIBLE NOTES DUE 2015

On 30 November 2012, the Company entered into the convertible notes restructuring agreement(s) with each of New Alexander Limited and Toprise Capital Limited (collectively the "**Noteholders**"), pursuant to which the Noteholders agreed to a consensual restructuring of their respective rights and obligations under the existing convertible notes due 26 November 2013 (the "**Convertible Notes Restructuring Agreement(s)**"). Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 11 January 2013, the special mandate for the issue of the new HK$695,000,000 2 per cent convertible notes due 2015 upon completion of the Convertible Notes Restructuring Agreements and issue and allot of the conversion shares was approved. All the conditions precedent under the Convertible Notes Restructuring Agreements were fulfilled and the completion took place on 28 January 2013.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 35, the Group had no other event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had 62 employees, of which 26 were in Hong Kong and 36 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 year ended 31 December 2012.

EXECUTIVE DIRECTORS

Tong Nai Kan, aged 54, 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 assumed the roles of the managing Director of the Company from March 1999 to November 2007 and the chief executive officer from February 2008 to August 2008 and from September 2009 onwards. Mr. Tong is currently the executive director of Harmonic Strait Financial Holdings Limited (stock code: 33), a company listed on the Main Board of the Stock Exchange. 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 47, 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 48, 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.

Tam Tak Wah, aged 47, 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 25 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Siberian Mining Group Company Limited, Tech Pro Technology Development Limited and China Packaging Group Company Limited, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited and Goldenway, Inc, a company the common stock of which are traded in the OTCQB of the U.S.A.

Tsang Ching Man, aged 32, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Tsz Kit, aged 36, 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 listed companies in the United States. Mr. Chan was a partner in a CPA firm Albert Wong & Co from 2007 to 2010. Now he is the chief financial officer of a company listed on the NASDAQ Exchange in the United States.

Chan Yim Por Bonnie, aged 46, was appointed as an independent non-executive Director of the Company in July 2011. He is also the chairman and a member of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is a solicitor and notary public (practicing) in Hong Kong who was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is currently a member of The Law Society of Hong Kong as well as the Hong Kong Society of Notaries. He obtained a Bachelor's Degree of Laws in 1988 and a Master's Degree of Laws in 1993 and has been practicing as a solicitor in the commercial field in Hong Kong since 1991. He established his own firm, Messrs. Yeung & Chan, Solicitors in 1996 and is now a senior partner of the firm. He has been a part time lecturer and tutor of the Postgraduate Certificate in Laws in The University of Hong Kong since 2002 and was admitted as an adjunct lecturer of the HKU School of Professional and Continuing Education in 2009.

Wang Li, aged 30, was appointed as an independent non-executive Director of the Company in September 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics degree from Peking University in 2005 and a Master in Finance degree from the University of St. Andrews, United Kingdom 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.

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 2012 (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.

The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") has issued the amendments on Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange (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.

During the year, 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) with an exception of code provisions A.2.1, A.4.1, A.4.2, A6.7 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

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 2011 and the six months ended 30 June 2012 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 five executive Directors and three independent non-executive Directors ("**INEDs**"):

Executive Directors:

Mr. Tong Nai Kan *(Chairman)*
Mr. Cheng Wai Keung
Mr. Lo Tai In
Mr. Tam Tak Wah
Ms. Tsang Ching Man

Independent non-executive Directors:

Mr. Chan Tsz Kit
Mr. Chan Yim Por Bonnie
Mr. Wang Li

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 are 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 is 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.

The board has regularly reviewed the contribution required from the directors to perform their responsibilities to the Company, and whether they are spending sufficient time performing them.

Number of Meetings and Directors' Attendance

The Board held a total of nineteen Board meetings and two general meetings during the Year. The attendance record of each Director at those meetings is set out below:

Name of Directors	Attendance/Number of Board Meetings	General Meetings
Mr. Tong Nai Kan	15/19	0/2
Mr. Cheng Wai Keung	19/19	2/2
Mr. Lo Tai In	19/19	2/2
Mr. Tam Tak Wah	19/19	2/2
Ms. Tsang Ching Man	19/19	2/2
Mr. Chan Tsz Kit	17/19	2/2
Mr. Chan Yim Por Bonnie	17/19	2/2
Mr. Wang Li	15/19	0/2

Directors' Training

All Directors are provided with necessary induction and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statues, laws, rules and regulations. The Company Secretary also provides Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time.

Also, with effect from 1 April 2012, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged inhouse trainings for Directors in the form of seminar and reading materials since the CG Code became effective from 1 April 2012. A summary of training received by Directors since 1 April 2012 and up to 31 December 2012 according to the records provided by the Directors is as follows:

Name of Directors	Types of Trainings
Mr. Tong Nai Kan	A, B
Mr. Cheng Wai Keung	A, B
Mr. Lo Tai In	A, B
Mr. Tam Tak Wah	A, B
Ms. Tsang Ching Man	A, B
Mr. Chan Tsz Kit	A, B
Mr. Chan Yim Por Bonnie	A, B
Mr. Wang Li	A, B

A: Attending seminars and/or conferences and/or forums

B: Reading newspapers, journals and updates relating to the economy, general business or director's duties and responsibilities, etc.

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

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

Mr. Tong Nai Kan assumed the roles of both the chairman and chief executive officer ("**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.

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 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.

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 develop 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 Year.

Practices and Conduct of Meetings

The Board conducts meeting on a regular basis at approximately quarterly intervals 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.

The chairman promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. During the Year, the chairman held a meeting with the non-executive directors (independent non-executive directors) without the presence of executive directors.

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 after the Board meetings.

In the said Board Meetings, notices of at least 14 days 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 them to discharge their duties. The Company has also arranged appropriate insurance cover in respect of legal action against its directors.

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 set out in the Company's website at www.newsmartgroup.com and the website of the Stock Exchange at www.hkexnews.hk.

All the members of the Board committees are INEDs. The current members of each Board committee are set out below:

Remuneration Committee

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

Nomination Committee

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

Audit Committee

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

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.

During the Year, the Remuneration Committee has reviewed the remuneration policy and structure of the Company and the remuneration packages of all Directors and the senior management with reference to the Board's corporate goals and objectives.

The term of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange.

Independent professional advice would be provided to the Remuneration Committee, upon reasonable request, if necessary.

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. Chan Yim Por Bonnie *(Chairman)*	1/1
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 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 a director of the Company, 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.

During the Year, the Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations on any proposed changes to the board to complement the Company's corporate strategy.

The term of reference of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

Independent professional advice would be provided to the Nomination Committee, upon reasonable request, to perform its responsibilities at the Company's expenses.

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. Chan Yim Por Bonnie	1/1
Mr. Wang Li	1/1

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 after the Nomination Committee meetings.

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.

The term of reference of the Audit Committee are posted on the websites of the Company and the Stock Exchange.

During the Year, the Audit Committee held two meetings for reviewing annual and interim reports respectively before submission to the Board; discussing all significant accounting issues as stated in the annual and interim reports, any changes in accounting policies and practices, major judgmental areas, significant adjustments, the going concern assumption, compliance with accounting standards, the stock exchange and legal requirements. The attendance record is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings
Mr. Chan Tsz Kit *(Chairman)*	2/2
Mr. Chan Yim Por Bonnie	2/2
Mr. Wang Li	1/2

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

The annual results of the Group for the Year have been reviewed by the Audit Committee.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Year, the Board considered the following corporate governance matters:

(i) review and adopt an updated Code of Conduct regarding the Directors' Securities Transactions;

(ii) update the directors for their duties and responsibilities; and

(iii) review of the effectiveness of the internal controls and risk management systems of the Company.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012. The auditor of the Company acknowledges their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2012. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

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.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company. She is also the executive Director, the authorised representative and the chief financial officer of the Company. The Company Secretary has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training. The biographical detail of the Company Secretary is set out on page 11 of the annual report.

SHAREHOLDERS' RIGHTS

Convening Extraordinary General Meeting ("EGM") and Putting Forward Proposals at Shareholders' Meetings

Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written request to convene an EGM (stating the objects of the meeting and signed by the shareholders concerned) at the registered office of the Company for the attention of the Company Secretary. If the Directors do not within 21 days from the date of the deposit of a request (after being verified to be valid) proceed to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months from the date of the deposit of the request.

To put forward proposals at shareholders' meeting, a request in writing must be made by:

(a) shareholders holding not less than one-fortieth (1/40) of the total voting rights of all shareholders having the right to vote at the meeting; or

(b) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000,

to the Company to give to shareholders notice of any resolution which may properly be moved and is intended to be moved at an annual general meeting, or to circulate to shareholders any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement provided that the shareholders concerned have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

If a shareholder of the Company intends to propose a person other than a Director of the Company for election as a Director of the Company at any general meeting, the shareholder concerned shall lodge with the registered office of the Company for the attention of the Company Secretary (i) a written notice of his intention to propose that person for election as a Director; and (ii) a notice in writing by that person of his/her willingness to be elected together with the necessary information within the period commencing no earlier than the day after the dispatch of the notice of the general meeting and ending no later than seven days prior to the date of such general meeting.

Detailed procedures can be found in the following documents which are available on the Company's website:

- "Shareholders Communication Policy"

- "Procedures for Shareholders to propose a person for election as a Director"

Enquiries to the Board

The Shareholders may direct their questions about their shareholdings to the Company's share registrar, Tricor Standard Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. They may also at any time make a request for the Company's information to the extent such information is publicly available and make enquiries to the Company with the contact details provided by post, telephone, fax and email.

CONSTITUTIONAL DOCUMENTS

During the Year, there is no significant change in the Company's constitutional documents.

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 29 May 2012 (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.

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.

During the Year, with the assistance of an external advisor, the Company had conducted a high-level risk assessment and found that the Company has established high level controls of the strategic management, core business and resource management processes and risk management function that addressed those identified risk parameters. Based on the results, the external advisor noted no material or significant control design gaps.

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. During the year, based on the recommendations of the external advisor, amendments are made to the existing internal control manuals. For newly incorporated subsidiaries in the PRC, relevant internal control systems are developed and implemented in 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.

On behalf of the Board
Tong Nai Kan
Chairman

Hong Kong, 26 March 2013

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2012.

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 35.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012.

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 25 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 24 to the financial statements.

CONVERTIBLE NOTES

On 30 November 2012, the Company has entered into the convertible notes restructuring agreements with each of the noteholders, pursuant to which the noteholders have agreed to a consensual restructuring of their respective rights and obligations under the existing convertible notes due 26 November 2013 in the outstanding principal amount of HK$695,000,000 issued by the Company. The new HK$695,000,000 2 per cent convertible notes due 31 December 2015 were issued to the noteholders on 28 January 2013.

Details of movements in the convertible notes are set out in note 29 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 35 to the financial statements.

DIRECTORS

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

Tong Nai Kan
Cheng Wai Keung
Lo Tai In
Tam Tak Wah
Tsang Ching Man
Chan Tsz Kit*
Chan Yim Por Bonnie*
Wang Li*

* *independent non-executive Directors*

In accordance with Articles 104 and 105 of the Articles of Association of the Company, one-third of the Directors shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Details of the retiring Directors shall be set out in the circular, among other things, for proposal for re-election of retiring directors accompanying to the notice of annual general meeting to be sent to the Shareholders in due course.

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.

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 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 (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)*	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 31 December 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.

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 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. 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
HSBC International Trustee Limited	Trustee	450,000,000	–	6.78%
Leung Yuk Kit	Corporate	461,100,000	–	6.95%
New Alexander Limited *(Note)*	Beneficial	–	528,225,806	7.96%
Smart Dragon Global Limited	Beneficial	1,207,425,000	–	18.19%
Tung Tai Finance Limited	Beneficial	450,000,000	–	6.78%

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$655,000,000.

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.

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.

At the annual general meeting of the Company held on 29 May 2012, 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 663,847,320 Shares, representing 10% of the issued share capital of the Company as at 29 May 2012.

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.

(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 2012, 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 68.01% of the Group's total turnover of continuing operation, of which 55.64% was made to the largest customer.

The aggregate purchase of continuing operations during the year attributable to the Group's five largest suppliers was 88.17% of the Group's total purchases of continuing operations, of which 79.33% 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.

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 consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by CCIF CPA Limited ("CCIF"). CCIF will retire as auditor at the conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment. CCIF has acted as auditor of the Company in the preceding three years.

A resolution will be submitted to the forthcoming annual general meeting of the Company for the appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company, which was established by the merger of businesses of CCIF and PCP CPA Limited, is a member firm in Hong Kong of Crowe Horwath International.

On behalf of the Board

Tong Nai Kan
Chairman

Hong Kong, 26 March 2013

CCIF
CCIF CPA LIMITED
9/F Leighton Centre
77 Leighton Road
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of New Smart Energy Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 35 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 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 are free from material misstatement, 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.

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 about whether the consolidated financial statements are free from material misstatement.

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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2013

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Continuing operations			
Turnover	6	**37,796**	48,264
Revenue	6	**37,694**	36,375
Cost of sales		**(29,075)**	(23,264)
Gross profit		**8,619**	13,111
Other revenue and other income	7	**5,345**	5,375
Administrative expenses		**(42,079)**	(44,268)
Impairment loss on production sharing contract	16	**(100,650)**	(424,306)
Amortisation of production sharing contract	16	**(119,493)**	(132,870)
Impairment loss on available-for-sale financial assets		**–**	(692)
Fair value change of convertible notes' embedded derivatives	29(a)	**121**	29,978
Gain on redemption of convertible notes	29(a)	**83**	1,587
Finance costs	8(a)	**(9,248)**	(13,019)
Loss before taxation	8	**(257,302)**	(565,104)
Income tax	11(a)	**54,345**	136,616
Loss for the year from continuing operations		**(202,957)**	(428,488)
Discontinued operation			
Gain on sale of disposal group held for sale	12	**–**	34,419
Loss for the year		**(202,957)**	(394,069)
Loss for the year attributable to:			
Owners of the Company		**(202,223)**	(393,397)
Non-controlling interests		**(734)**	(672)
		(202,957)	(394,069)
(Loss)/earnings per share (expressed in HK cents)	14		
From continuing and discontinued operations			
Basic and diluted		**(3.05)**	(9.99)
From continuing operations			
Basic and diluted		**(3.05)**	(10.86)
From discontinued operation			
Basic and diluted		**–**	0.87

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Loss for the year		**(202,957)**	(394,069)
Other comprehensive income			
Exchange differences:			
– arising on translation of financial statements of foreign operations		**14,163**	95,397
– reclassification of exchange reserve included in gain on sale of disposal group held for sale	12	**–**	(28,287)
Reclassification adjustment for investment reserve included in impairment loss on available-for-sale financial assets		**–**	(949)
Total comprehensive loss for the year (net of tax)		**(188,794)**	(327,908)
Attributable to:			
Owners of the Company		**(188,060)**	(327,236)
Non-controlling interests		**(734)**	(672)
		(188,794)	(327,908)
Total comprehensive loss attributable to owners of the Company arises from:			
Continuing operations		**(188,060)**	(361,655)
Discontinued operation		**–**	34,419
		188,060	(327,236)

The notes on pages 43 to 119 form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	15	**59,591**	44,242
Intangible assets	16	**2,995,633**	3,196,933
Interest in an associate, net	18	**–**	–
Available-for-sale financial assets	19	**1,000**	1,000
		3,056,224	3,242,175
Current assets			
Financial assets at fair value through profit or loss	20	**27,700**	21,772
Loan receivable	21	**–**	30,000
Trade and other receivables	22	**89,758**	88,844
Cash and bank balances	23	**81,686**	167,752
		199,144	308,368
Total assets		**3,255,368**	3,550,543
Equity			
Share capital	24	**66,385**	531,078
Reserves		**1,689,075**	1,412,442
Equity attributable to owners of the Company		**1,755,460**	1,943,520
Non-controlling interests		**(1,879)**	(1,145)
Total equity		**1,753,581**	1,942,375

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Liabilities			
Non-current liabilities			
Convertible notes – liability portion, unsecured	29(a)	**–**	751,378
Convertible notes – embedded derivatives, unsecured	29(a)	**–**	121
Deferred taxation	30(b)	**748,908**	799,233
		748,908	1,550,732
Current liabilities			
Other borrowing, unsecured	28	**17,625**	19,069
Convertible notes	29(a)	**686,972**	–
Trade and other payables	31	**45,943**	35,689
Taxation payable	30(a)	**2,339**	2,678
		752,879	57,436
Total liabilities		**1,501,787**	1,608,168
Total equity and liabilities		**3,255,368**	3,550,543
Net current (liabilities)/assets		**(553,735)**	250,932
Total assets less current liabilities		**2,502,489**	3,493,107

Approved and authorised for issue by the board of directors on 26 March 2013

Tong Nai Kan
Director

Tsang Ching Man
Director

The notes on pages 43 to 119 form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 *HK$'000*	2011 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment	15	**809**	191
Interests in subsidiaries, net	17	**2,201,060**	2,254,004
Interest in an associate, net	18	**–**	–
Available-for-sale financial assets	19	**1,000**	1,000
		2,202,869	2,255,195
Current assets			
Amounts due from subsidiaries, net	17	**156,770**	257,281
Other receivables	22	**35,212**	35,821
Cash and bank balances	23	**10,605**	45,151
		202,587	338,253
Total assets		**2,405,456**	2,593,448
Equity			
Share capital	24	**66,385**	531,078
Reserves	25(a)	**1,651,081**	1,309,808
Total equity		**1,717,466**	1,840,886
Liabilities			
Non-current liabilities			
Convertible notes – liabilities portion, unsecured	29(a)	**–**	751,378
Convertible notes – embedded derivatives, unsecured	29(a)	**–**	121
		–	751,499
Current liabilities			
Convertible notes	29(a)	**686,972**	–
Other payables	31	**1,018**	1,063
		687,990	1,063
Total liabilities		**687,990**	752,562
Total equity and liabilities		**2,405,456**	2,593,448
Net current (liabilities)/assets		**(485,403)**	337,190
Total assets less current liabilities		**1,717,466**	2,592,385

Approved and authorised for issue by the board of directors on 26 March 2013

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

The notes on pages 43 to 119 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000* *Note 25(b)(i)*	Capital redemption reserve *HK$'000* *Note 25(b)(i)*	Special capital reserve *HK$'000* *Note 25(b)(ii)*	Other capital reserve *HK$'000* *Note 25(b)(v)*	Investment reserve *HK$'000* *Note 25(b)(iii)*	Exchange reserve *HK$'000* *Note 25(b)(iv)*	Statutory reserve *HK$'000* *Note 25(b)(vi)*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
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
Loss for the year	–	–	–	–	–	–	–	–	(393,397)	(393,397)	(672)	(394,069)
Other comprehensive income												
Exchange difference:												
– arising on translation of financial statements of foreign operations	–	–	–	–	–	–	95,397	–	–	95,397	–	95,397
– reclassification adjustment for sale of disposal group *(note 12)*	–	–	–	–	–	–	(28,287)	–	–	(28,287)	–	(28,287)
Impairment loss in available-for-sale financial assets	–	–	–	–	–	(949)	–	–	–	(949)	–	(949)
Total comprehensive income for the year	–	–	–	–	–	(949)	67,110	–	(393,397)	(327,236)	(672)	(327,908)
Release upon sale of disposal group	–	–	–	–	–	–	–	(6,170)	6,170	–	–	–
Issue of new shares:												
– upon open offer *(note 24(b))*	265,539	47,705	–	–	–	–	–	–	–	313,244	–	313,244
At 31 December 2011 and 1 January 2012	531,078	1,397,856	5,318	492,172	1,805	–	213,604	–	(698,313)	1,943,520	(1,145)	1,942,375
Loss for the year	–	–	–	–	–	–	–	–	(202,223)	(202,223)	(734)	(202,957)
Other comprehensive income												
Exchange difference arising on translation of financial statements of foreign operations	–	–	–	–	–	–	14,163	–	–	14,163	–	14,163
Total comprehensive income for the year	–	–	–	–	–	–	14,163	–	(202,223)	(188,060)	(734)	(188,794)
Capital reduction *(note 24(c))*	(464,693)	–	–	87,627	–	–	–	–	377,066	–	–	–
At 31 December 2012	66,385	1,397,856	5,318	579,799	1,805	–	227,767	–	(523,470)	1,755,460	(1,879)	1,753,581

The notes on pages 43 to 119 form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	**2012**	2011
		HK$'000	*HK$'000*
Operating activities			
Loss before taxation			
– Continuing operations		**(257,302)**	(565,104)
– Discontinued operation		**–**	34,419
		(257,302)	(530,685)
Adjustments:			
Interest income		**(2,745)**	(1,978)
Finance costs		**9,248**	13,019
Dividend income		**(46)**	(5)
Fair value change of convertible notes' embedded derivatives	29(a)	**(121)**	(29,978)
Net (gain)/loss on financial assets at fair value through profit or loss		**(432)**	2,280
Depreciation		**3,819**	4,161
Reversal of interest accrued		**(532)**	(532)
Reversal of impairment loss on trade receivables		**(3)**	–
Amortisation of production sharing contract	16	**119,493**	132,870
Impairment loss of production sharing contract	16	**100,650**	424,306
Impairment loss of available-for-sale financial assets		**–**	692
Gain on redemption of convertible notes		**(83)**	(1,587)
Gain on sale of disposal group held for sale		**–**	(34,419)
Gain on disposal of property, plant and equipment		**(65)**	–
Changes in working capital:			
Increase in financial assets at fair value through profit or loss		**(5,496)**	(24,052)
Decrease/(increase) in loan receivable		**30,000**	(30,000)
Increase in trade and other receivables		**(911)**	(82,806)
Increase/(decrease) in trade and other payables		**10,786**	(2,988)
Cash generated from/(used in) operations		**6,260**	(161,702)
Tax paid		**(1,030)**	–
Interest received		**2,295**	1,528
Net cash generated from/(used in) operating activities		**7,525**	(160,174)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 *HK$'000*	2011 *HK$'000*
Investing activities			
Receipt of dividend income		**46**	5
Purchase of property, plant and equipment		**(19,417)**	(4,922)
Proceeds from disposal of property, plant and equipment		**565**	–
Proceeds for sale of disposal group held for sale		**–**	49,417
Increase in pledged bank deposits		**(30)**	–
Interest received		**450**	450
Direct costs for sale of disposal group held for sale		**–**	(1,892)
Net cash (used in)/generated from investing activities		**(18,386)**	43,058
Financing activities			
Proceeds from issue of new shares		**–**	313,244
Interest paid		**(71)**	(79)
Repayment for other loans		**(1,556)**	(1,684)
Payment for redemption of convertible notes		**(73,500)**	(381,918)
Net cash used in financing activities		**(75,127)**	(70,437)
Net decrease in cash and cash equivalents		**(85,988)**	(187,553)
Cash and cash equivalents at beginning of year		**164,602**	353,636
Effect of foreign exchange rate changes		**(108)**	(1,481)
Cash and cash equivalents at end of year	23	**78,506**	164,602

The notes on pages 43 to 119 form part of these 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 and the principal place of business is Unit 3702B, 37/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

The principal activities of the Group are coalbed methane gas exploration and exploitation in The People's Republic of China (the "PRC"), sale of electronic components and treasury which include securities trading and money lending.

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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in Hong Kong dollar ("HK$"), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company's functional and the Group's presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group and the Company in light of the fact that the current liabilities exceeded the current assets by HK$553,735,000 and HK$485,403,000, respectively, as at 31 December 2012 and the Group incurred a loss of approximately of HK$202,957,000, which included impairment loss on production sharing contract of HK$100,650,000 and amortisation of HK$119,493,000 for the year then ended. As detailed in note 29(b), the convertible notes (with the principal value of HK$695,000,000) carried at amortised cost of HK$686,972,000 falling due on 26 November 2013, were classified under current liabilities as at 31 December 2012. As detailed in notes 29(b) and 35, on 30 November 2012, the Company and all of the convertible note holders entered into Convertible Notes Restructuring Agreements, pursuant to which, all of the Company's existing convertible notes have been subsequently restructured and settled on 28 January 2013 by New Convertible Notes with principal value of HK$695,000,000 with maturity date on 31 December 2015. Based on a cash flow forecast prepared by the management for the next eighteen months ending on 30 June 2014, the Group will have sufficient working capital to operate as a going concern. Accordingly, the financial statements have been prepared on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the following assets and liabilities that are stated at their fair value as explained in the accounting policies set out below:

– available-for-sale financial assets;

– financial assets at fair value through profit or loss; and

– embedded derivative in convertible notes

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 that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are 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.

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

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

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 5.

(c) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

When the Group loses control of a subsidiary, it is accounted for as a 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 a jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated 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).

(d) 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 identifiable 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 notes 2(e) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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 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.

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

(e) 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 the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

– a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12 *Income Tax*;

– assets or liabilities relating to employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

– liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

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

(e) Business combination ***(Continued)***

– 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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group 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 included 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 against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at 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 remeasured 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 remeasured 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Business combination *(Continued)*

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured 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. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units, 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. If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. 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 the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in equity securities

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

Investments in 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 dividends or interest earned on these investments as these are recognised in accordance with the policies as set out in note 2(z)(v) and (iii).

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)).

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 in other comprehensive income and accumulated separately in equity in the investment reserve, except foreign exchange gains and losses resulting from changes in the 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 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)(iii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 jointly controlled assets and share of any liabilities incurred jointly with other venturer 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 when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property, plant and equipment

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

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:

Land and 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 recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 proceeds on disposal 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 buildings and structures under construction, which is stated at cost less impairment losses (see note 2(m)). 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 reclassified to the appropriate category of property, plant and equipment when completed and ready for use. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

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

(j) 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)). 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 assets with finite life as set out above.

(k) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies; exploratory drilling and sampling; examining and testing extraction and treatment methods and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are capitalised as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to development assets if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the profit or loss.

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

(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, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(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 held 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets

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

Investments in equity securities and other current 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.

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

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

– For unquoted equity securities carried at cost, 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 carried at cost are not reversed.

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

(m) Impairment of assets *(Continued)*

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

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets 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 securities, the cumulative loss that has been recognised in the investment 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.

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 fair value of such assets is recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities are reversed if subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses of such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

(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:

– Interests in subsidiaries;

– property, plant and equipment; and

– intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– 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 profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of 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 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) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(p) Trade and other receivables

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

(q) 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 with any difference between the amount initially recognised and 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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 rate of interest 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 accumulated losses.

(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(o)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Convertible notes *(Continued)*

(ii) Other convertible notes (Continued)

The derivative component is subsequently remeasured in accordance with note 2(o). 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. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are 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 are readily convertible into known amounts of cash and which are subject to an 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting 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 accumulated losses).

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 except 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Income tax *(Continued)*

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.

(x) Provisions and contingent liabilities

Provisions are recognised for 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 are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency that best reflects the economic substance of the underlying events and circumstances relevant to each entity and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities 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. Statement of financial position items are translated into the presentation currency at the closing 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.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(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 sale of electronic components is recognised when goods are delivered and title has passed.

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

(iv) Revenue from trading of securities is recognised on the trade date basis.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Revenue recognition *(Continued)*

(v) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(aa) 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, 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.

(bb) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following revised HKFRSs ("**new HKFRSs**") issued by the HKICPA.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

The amendment to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12 – Deferred Tax: Recovery of Underlying Assets

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the assets in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40 *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. As the Group does not have investment property, the amendments have no financial impact on the Group.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which the transaction relates. The currencies giving rise to this risk are primarily Renminbi ("RMB") and United States dollars ("US$"). RMB is not freely convertible into other currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. As HK$ is pegged to the US$, the Group does not expect any significant currency risk of Hong Kong dollar position.

Overall, the Group monitors its currency exposure closely and would consider hedging significant currency exposure should the need arise.

(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 equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period, the Group is exposed to this risk through the redemption rights attached to the convertible notes issued by the Company as disclosed in note 29. Other price risk is the risk that the fair values of securities decrease as a result of changes in levels of equity indices and the values of individual securities. The Group is exposed to equity securities price risk arising from individual equity investment classified as financial assets at fair value through profit or loss (note (20)) as at 31 December 2012. The Group has not hedged its price risk arising from investments in equity securities. The Group's listed investments are listed on the Stock Exchange of Hong Kong are valued at the quoted market prices at the reporting date.

Sensitivity analysis

As at 31 December 2012, if the market prices of the securities had increased/decreased by 10% (2011: 10%) with all other variables held constant, the carrying amounts of the Group's publicly traded financial assets at fair value through profit or loss would be approximately HK$2,770,000 (2011: HK$1,148,000) higher or HK$2,770,000 (2011: HK$1,148,000) lower than the current value.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has a delegated team to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no concentration of credit risk by geographical location as the Group's operations are mainly in Hong Kong. The Group has no significant concentration of credit risk by any single debtor, except for other receivables as disclosed in note 22.

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk for such institutions is minimal.

(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 risk 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.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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 and 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

	2012					2011				
	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	17,625	17,625	17,625	–	–	19,069	19,069	19,069	–	–
Trade and other payables	45,943	45,943	45,943	–	–	35,689	35,689	35,689	–	–
Convertible notes (including embedded derivatives)	686,972	695,000	695,000	–	–	751,499	770,000	–	770,000	–
	750,540	758,568	758,568	–	–	806,257	824,758	54,758	770,000	–

The Company

	2012					2011				
	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	1,018	1,018	1,018	–	–	1,063	1,063	1,063	–	–
Convertible notes (including embedded derivatives)	686,972	695,000	695,000	–	–	751,499	770,000	–	770,000	–
	687,990	696,018	696,018	–	–	752,562	771,063	1,063	770,000	–

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Interest rate risk

Except for bank deposits (note 23), the Group has no significant interest-bearing assets and liabilities.

Other than as mentioned above, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2012, if the interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, the Group's loss for the year would decrease/increase by approximately HK$817,000 (2011: HK$1,678,000).

(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 following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets 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 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

4. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(g) Fair values *(Continued)*

(i) Financial instruments carried at fair value (Continued)

The Group	**Level 1**	**Level 2**	**Level 3**
2012	***HK$'000***	***HK$'000***	***HK$'000***
Assets			
– Financial assets designated at fair value through profit or loss	**–**	**–**	**–**
– Trading securities	**27,700**	**–**	**–**
– Available-for-sale financial assets	**–**	**–**	**1,000**
Liabilities			
– Conversion option embedded in convertible notes	**–**	**–**	**–**
2011			
Assets			
– Financial assets designated at fair value through profit or loss	–	10,294	–
– Trading securities	11,478	–	–
– Available-for-sale financial assets	–	–	1,000
Liabilities			
– Conversion option embedded in convertible notes	–	–	121

The Company	**Level 1**	**Level 2**	**Level 3**
2012	***HK$'000***	***HK$'000***	***HK$'000***
Assets			
– Available-for-sale financial assets	**–**	**–**	**1,000**
Liabilities			
– Conversion option embedded in convertible notes	**–**	**–**	**–**
2011			
Assets			
– Available-for-sale financial assets	–	–	1,000
Liabilities			
– Conversion option embedded in convertible notes	–	–	121

During the years ended 31 December 2012 and 2011, there were no significant transfers between instruments in Level 1 and Level 2.

4. **FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)***

(g) **Fair values *(Continued)***

(i) *Financial instruments carried at fair value (Continued)*

The movement during the year in the Balance of Level 3 fair value measurement is as follows:

	The Group and The Company	
	2012	2011
	HK$'000	*HK$'000*
Conversion option embedded in convertible notes *(note 29(a))*		
At 1 January	**121**	32,290
Change in fair value recognised in profit or loss during the year	**(121)**	(29,978)
Redemption	**–**	(2,191)
At 31 December	**–**	121

(ii) *Financial instruments carried at other than 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 2012 and 2011.

(h) **Estimation of fair values**

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

(i) *Securities*

Fair value for quoted equity investments are based on quoted market bid prices at the end of the reporting period.

(ii) *Convertible notes with embedded derivative*

The fair value is estimated using the Binomial Lattice Model as set out in note 29(a).

5. **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.

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

Key sources of estimation uncertainty

(a) Impairment of property, plant and equipment

Property, plant and equipment 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.

(b) Escrow monies held in escrow accounts

As disclosed in note 22(a) to the financial statements, there was escrow monies of HK$85,000,000 placed in the escrow accounts of an escrow agent. The Group has instituted legal proceedings for the return of these escrow monies. As referred to in note 33(a) to the financial statements, based on the legal opinion sought, the directors of the Company are of the view that there is no impairment loss to be recognised on the other receivables (note 22(a)) as at 31 December 2012. However, in the event that the outcome of litigations were unfavourable and the actual future cash inflows were less than expected, an impairment loss may arise in future period.

(c) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(d) Useful life and amortisation of intangible asset

Production sharing contract is amortised on a straight-line basis over the periods 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 life and basis for amortisation of intangible asset annually, and if expectations are significantly different from previous estimate of useful economic life 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.

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

Key sources of estimation uncertainty *(Continued)*

(e) Estimate for resources and/or 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, transport 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 resources and/or 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 economic 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.

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

Key sources of estimation uncertainty *(Continued)*

(f) Impairment of intangible asset – Production Sharing Contract

The estimated recoverable amount 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 an independent firm of professional qualified valuers and technical assessment reports issued by Netherland, Sewell & Associates, Inc. Both the valuers and technical advisor are not connected with the Group and with appropriate qualifications and relevant experience in the industry. The estimated recoverable amount of the intangible asset as at the end of the reporting period was arrived at by income approach valuation methodology, which involves the value-in-use calculations and the Group has estimated the future cash flows and profit forecasts expected to generated from the cash-generating unit and a suitable discount rate in order to calculate the present value. The Group's CBM business under the production sharing contract (note 16) is currently at its early stage of development. The cash flow and profit forecast projections involve significant judgement and estimates on the accuracy of the assumptions for the projections and estimates of, including but not limited to, government policies, the growth rate, the extent of the future market competition, market demand, and cost structure of CBM products that the Group will achieve during the forecasting period.

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

Critical accounting judgement in applying the Group's accounting policies

(g) Functional currency

The Company is carrying out its operating activities and making management decisions in Hong Kong, that is, raising finance in Hong Kong dollar and has significant degree of autonomy from its foreign subsidiaries in the way its business is managed. In the opinion of the directors of the Company, the functional currency of the Company is Hong Kong dollar.

(h) 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 binomial lattice model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2012 was Nil (2011: HK$121,000). Further details are disclosed in note 29 to the financial statements.

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

Critical accounting judgement in applying the Group's accounting policies *(Continued)*

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

The Group reviews available-for-sale investment at the end of each reporting period to determine whether there is objective evidence of impairment. Judgement is required to determine whether a decline in the fair value of an investment is significant or prolonged. In making this judgement, the Group considers a number of factors including the historical data on market volatility, the price of the specific investment, industry and sector performance, and financial information regarding the issuer of the investment.

6. TURNOVER AND SEGMENT REPORTING

(a) Turnover and revenue

The principal activities of the Group are coalbed methane gas exploration and exploitation in the PRC, sale of electronic components and treasury including security trading and money lending.

An analysis of the amount of each significant category of turnover and revenue from principal activities during the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Sales of electronic components	**31,042**	25,796
Sales of coalbed methane products	**2,762**	2,847
Proceeds from trading of securities	**534**	9,609
Interest income from money lending	**3,458**	10,012
Turnover	**37,796**	48,264

	2012	2011
	HK$'000	*HK$'000*
Sales of electronic components	**31,042**	25,796
Sales of coalbed methane products	**2,762**	2,847
Gain/(loss) on trading of securities	**726**	(2,851)
Net (loss)/gain on financial assets at fair value through profit or loss	**(294)**	571
Interest income from money lending	**3,458**	10,012
Revenue	**37,694**	36,375

6. TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) 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 Group's most senior executive management, who are also the executive directors of the Company 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.

– Electronic components

– Coalbed methane

– Treasury (i.e. securities trading and money lending)

Discontinued operation *(note 12)*:

– Natural gas

(i) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

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.

The measure used for reporting segment profit is "segment result". Segment result includes the operating profit generated by the segment and finance costs directly attributable to the segment, without allocation of central administration costs. Taxation charge is not allocated to reportable segment.

6. TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below:

Year ended 31 December 2012

	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	31,042	2,762	3,890	37,694	–	37,694
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	31,042	2,762	3,890	37,694	–	37,694
Reportable segment result	(1,817)	(239,314)	2,699	(238,432)	–	(238,432)
Amortisation for the year	–	119,493	–	119,493	–	119,493
Depreciation for the year	19	2,957	104	3,080	–	3,080
Impairment loss on production sharing contract	–	100,650	–	100,650	–	100,650
Gain on redemption of convertible notes	–	(83)	–	(83)	–	(83)
Other income	(140)	(538)	(650)	(1,328)	–	(1,328)
Interest expenses	68	9,177	3	9,248	–	9,248
Major non-cash item:						
Fair value change of convertible notes' embedded derivatives	–	(121)	–	(121)	–	(121)
Reportable segment assets	4,375	3,148,526	89,469	3,242,370	–	3,242,370
Additions to non-current segment assets during the year	172	17,724	496	18,392	–	18,392
Reportable segment liabilities	18,251	725,469	3,907	747,627	–	747,627

6. TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities (Continued)

Year ended 31 December 2011

	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	25,796	2,847	7,732	36,375	–	36,375
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	25,796	2,847	7,732	36,375	–	36,375
Reportable segment results	(2,028)	(549,910)	6,519	(545,419)	–	(545,419)
Amortisation for the year	–	132,870	–	132,870	–	132,870
Depreciation for the year	10	2,851	38	2,899	–	2,899
Impairment loss on production sharing contract	–	424,306	–	424,306	–	424,306
Gain from sale of disposal group held for sale	–	–	–	–	34,419	34,419
Gain on redemption of convertible notes	–	(1,587)	–	(1,587)	–	(1,587)
Other income	(52)	(531)	(970)	(1,553)	–	(1,553)
Interest expense	79	12,940	–	13,019	–	13,019
Major non-cash item:						
Fair value change of convertible notes' embedded derivatives	–	(29,978)	–	(29,978)	–	(29,978)
Reportable segment assets	4,616	3,335,246	162,296	3,502,158	–	3,502,158
Additions to non-current segment assets during the year	–	4,661	150	4,811	–	4,811
Reportable segment liabilities	16,658	781,612	3,964	802,234	–	802,234

6. TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Continuing operations:		
Reportable segment revenue	**37,694**	36,375
Elimination of inter-segment revenue	**–**	–
Consolidated turnover from continuing operations	**37,694**	36,375
Profit or loss		
Continuing operations:		
Reportable segment loss	**(238,432)**	(545,419)
Other income	**4,017**	3,822
Unallocated head office and corporate expenses	**(22,887)**	(23,507)
Consolidated loss from continuing operations	**(257,302)**	(565,104)
Discontinued operation:		
Reportable segment profit	**–**	34,419
Assets		
Reportable segment assets	**3,242,370**	3,502,158
Unallocated head office and corporate assets	**12,998**	48,385
Consolidated total assets	**3,255,368**	3,550,543
Liabilities		
Reportable segment liabilities	**747,627**	802,234
Tax payable	**2,339**	2,678
Deferred taxation	**748,908**	799,233
Unallocated head office and corporate liabilities	**2,913**	4,023
Consolidated total liabilities	**1,501,787**	1,608,168

6. TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

In presenting geographical information, revenue is based on the geographical location. Specified non-current assets, which represent property, plant and equipment, intangible assets and available-for-sale financial assets, are based on the geographical location of assets.

	Continuing operations		Discontinued operation	
	Hong Kong	**PRC**	**PRC**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
2012				
Revenue	**34,932**	**2,762**	**–**	**37,694**
Specified non-current assets	**2,834**	**3,053,390**	**–**	**3,056,224**
2011				
Revenue	33,528	2,847	–	36,375
Specified non-current assets	2,226	3,239,949	–	3,242,175

(iv) Information about major customers

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

	2012	2011
	HK$'000	*HK$'000*
Customer A – Electronic components	**21,030**	15,047
Customer B – Treasury	**–**	4,900
	21,030	19,947

7. OTHER REVENUE AND OTHER INCOME

	Continuing operations	
	2012	2011
	HK$'000	*HK$'000*
Bank interest income	**2,295**	1,528
Interest income from unlisted investments	**450**	450
Dividend income	**46**	5
Tooling income for unclaimed moulding fee	**55**	27
Exchange gain, net	**1,816**	2,817
Reversal of interest accrued *(note)*	**532**	532
Reversal of impairment on trade receivables	**3**	–
Gain on disposal of property, plant and equipment	**65**	–
Sundry income	**83**	16
	5,345	5,375

Note:

As disclosed in notes 16 and 28, the independent third party agreed to waive all accrued interest of approximately HK$6,834,000 (equivalent to RMB6,008,000) due by Can-Elite and China United as at 31 December 2008, of which Can-Elite shared approximately HK$4,784,000 (equivalent to RMB4,206,000) based on the PSC. The accrued interest waived is amortised over the remaining contractual period of 8 years during which a discount on sale of CBM products will be given to that independent third party.

8. LOSS BEFORE TAXATION

	2012 HK$'000	2011 HK$'000
Loss for the year from continuing operations is attributable to:		
Owners of the Company	**(202,223)**	(427,816)
Non-controlling interests	**(734)**	(672)
	(202,957)	(428,488)

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

	Continuing operations	
	2012 *HK$'000*	2011 *HK$'000*
(a) Finance costs		
Interest expenses on borrowings wholly repayable within five years		
Imputed interest on convertible notes	**9,177**	12,940
Interest on bank overdrafts	**71**	79
Total interest expense on financial liabilities not at fair value through profit or loss	**9,248**	13,019
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**20,100**	21,078
Contributions to defined contribution retirement plans	**310**	316
Total staff costs	**20,410**	21,394
(c) Other items		
Amortisation of production sharing contract	**119,493**	132,870
Impairment loss on production sharing contract	**100,650**	424,306
Depreciation of property, plant and equipment	**3,819**	4,161
Operating lease charges in respect of land and buildings	**2,882**	2,294
Auditor's remuneration		
– Audit services	**650**	650
– Non-audit services	**220**	220
Cost of inventories sold	**29,075**	23,264

9. DIRECTORS' REMUNERATION

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

2012

	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	–	14	2,564
Tsang Ching Man	–	794	64	14	872
Tam Tak Wah	–	617	49	14	680
Lo Tai In	–	253	24	13	290
Cheng Wai Keung	–	253	24	13	290
Independent non-executive directors					
Chan Tsz Kit	100	–	–	–	100
Wang Li	100	–	–	–	100
Chan Yim Bor, Bonnie	100	–	–	–	100
	450	4,317	161	68	4,996

9. DIRECTORS' REMUNERATION *(Continued)*

2011

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Total *HK$'000*
Executive directors					
Tong Nai Kan	150	2,400	–	12	2,562
Tsang Ching Man	–	720	140	12	872
Tam Tak Wah	–	540	89	12	641
Lo Tai In	–	240	22	12	274
Pang Yuen Shan, Christina (resigned on 15 June 2011)	–	–	45	–	45
Cheng Wai Keung	–	240	27	12	279
Independent non-executive directors					
Chan Tsz Kit	100	–	–	–	100
Wang Li	100	–	–	–	100
Wong Kwok Hong, Simon (resigned on 28 July 2011)	57	–	–	–	57
Chan Yim Bor, Bonnie (appointed on 28 July 2011)	43	–	–	–	43
	450	4,140	323	60	4,973

There was no amount paid during the years ended 31 December 2012 and 2011 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 2012 and 2011.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: two) are directors of the Company, whose emoluments are disclosed in note 9. The aggregate emoluments of the remaining three (2011: three) individuals are as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**4,273**	4,165
Contributions to retirement benefits schemes	**40**	24
	4,313	4,189

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

	Number of individuals	
Emoluments bands	**2012**	2011
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	1
	3	3

There was no amount paid or payable during the years ended 2012 and 2011 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 2012 and 2011.

11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operations	
	2012	2011
	HK$'000	*HK$'000*
Current taxation		
PRC Corporate Income Tax		
– Provision for the year	**688**	680
– Under provision in respect of prior years	**–**	1,944
Hong Kong Profits Tax	**3**	54
Deferred tax *(note 30 (b))*		
Origination and reversal of temporary differences	**(55,036)**	(139,294)
Tax credit	**(54,345)**	(136,616)

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2011:16.5%) of the estimated assessable profits for the year.

(ii) 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 28% (2011: 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 2012 and 2011.

(iii) The subsidiaries in the PRC are subject to PRC corporate income tax rate of 25% (2011: 25%).

(iv) 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 fiscal evasion, dividends declared from the PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax.

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

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

	2012 *HK$'000*	2011 *HK$'000*
Loss before taxation (including profit from discontinued operation)	**(257,302)**	(530,685)
Notional tax on loss before taxation, calculated at the rates applicable in the countries concerned	**(62,404)**	(129,366)
Tax effect of non-taxation income	**(599)**	(14,600)
Tax effect of non-deductible expenses	**8,176**	5,087
Tax effect of tax losses not recognised	**482**	331
Special tax deduction	**–**	(12)
Under provision in respect of prior years	**–**	1,944
Tax credit	**(54,345)**	(136,616)

12. 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 ("Sanxia Gas") and its subsidiaries, namely Hong Kong Sanxia Gas Investment Limited, 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 "Sanxia Gas Group") at a cash consideration of RMB50 million (equivalent to approximately HK$59,400,000) to a former director of the Company, Mr Tan Chuanrong. The operations of gas supply of Sanxia Gas Group were discontinued since 2 December 2009.

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

Gain on disposal was as follows:

	2011
	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)
Assets less liabilities of a discontinued operation and disposal group held for sale	51,376
Direct costs relating to the disposal	1,892
Exchange reserve realised *(note (25)(a))*	(28,287)
Gain on sale of disposal group held for sale	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

Apart from the above, the Sanxia Gas Group did not contribute any cash flows and results to the Group for the year ended 31 December 2011.

13. LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated loss for the year attributable to the owners of the Company includes a loss of HK$123,420,000 (2011: a profit of HK$59,320,000) which has been dealt with in the financial statements of the Company.

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on loss attributable to owners of the Company from continuing operations and discontinued operation of HK$202,223,000 (2011: HK$393,397,000) and the weighted average of 6,638,473,206 ordinary shares (2011: 3,937,614,929) in issue.

Loss attributable to owners of the Company

	2012	2011
	HK$'000	*HK$'000*
Loss attributable to owners:		
– Continuing operations	**(202,223)**	(427,816)
– Discontinued operation	**–**	34,419
	(202,223)	(393,397)

Weighted average number of ordinary shares (basic and diluted)

	2012	2011
Issued ordinary shares at 1 January	**6,638,473,206**	3,319,236,603
Effect of open offer	**–**	618,378,326
Weighted average number of ordinary shares at 31 December	**6,638,473,206**	3,937,614,929

(b) Diluted (loss)/earnings per share

No adjustment for convertible notes was made in calculating diluted (loss)/earnings per share for both years as the conversion of convertible notes would result in decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings HK$'000	Construction in progress HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost							
At 1 January 2011	6,358	14,149	26,743	1,793	1,554	1,497	52,094
Exchange adjustment	228	507	918	24	22	–	1,699
Additions	–	4,662	–	110	150	–	4,922
At 31 December 2011 and 1 January 2012	6,586	19,318	27,661	1,927	1,726	1,497	58,715
Exchange adjustment	39	110	156	5	4	–	314
Additions	–	17,703	143	–	1,448	123	19,417
Disposals	–	–	–	–	(868)	(311)	(1,179)
At 31 December 2012	6,625	37,131	27,960	1,932	2,310	1,309	77,267
Accumulated depreciation							
At 1 January 2011	53	–	7,309	1,563	228	855	10,008
Exchange adjustment	6	–	285	10	3	–	304
Charge for the year	325	–	2,632	333	278	593	4,161
At 31 December 2011 and 1 January 2012	384	–	10,226	1,906	509	1,448	14,473
Exchange adjustment	2	–	58	2	1	–	63
Charge for the year	331	–	3,051	24	353	60	3,819
Written back on disposal	–	–	–	–	(368)	(311)	(679)
At 31 December 2012	717	–	13,335	1,932	495	1,197	17,676
Carrying amount							
At 31 December 2012	5,908	37,131	14,625	–	1,815	112	59,591
At 31 December 2011	6,202	19,318	17,435	21	1,217	49	44,242

The land and 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 2012 and 2011.

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

The Company

	Motor Vehicles
	HK$'000
Cost	
At 1 January 2011, 31 December 2011 and 1 January 2012	318
Additions	952
Disposals	(318)
At 31 December 2012	952
Accumulated depreciation	
At 1 January 2011	63
Charge for the year	64
At 31 December 2011 and 1 January 2012	127
Charge for the year	164
Written back on disposal	(148)
At 31 December 2012	143
Carrying amount	
At 31 December 2012	809
At 31 December 2011	191

16. INTANGIBLE ASSETS

The Group

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2011	3,896,426
Exchange adjustment	139,630
At 31 December 2011 and 1 January 2012	4,036,056
Exchange adjustment	23,734
At 31 December 2012	4,059,790
Accumulated amortisation and impairment	
At 1 January 2011	270,585
Charge for the year	132,870
Impairment loss	424,306
Exchange adjustment	11,362
At 31 December 2011 and 1 January 2012	839,123
Charge for the year	119,493
Impairment loss	100,650
Exchange adjustment	4,891
At 31 December 2012	1,064,157
Carrying amount	
At 31 December 2012	2,995,633
At 31 December 2011	3,196,933

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 of the Company, 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.

In October 2011, Can-Elite entered into an agreement with China United, pursuant to which both parties agreed that China United to commence drilling work in the CBM Contract Area and to explore new technology for exploring and developing CBM, aiming at speeding up the exploration process of the CBM Contract Area. In December 2011, China United started drilling a parametric well within the CBM Contract Area and the drilling has finished to date.

16. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

Can-Elite and China United shall reimburse 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 China United, 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 26.9 years (2011: 27.9 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:

		2012	2011
		HK$'000	*HK$'000*
(i)	Results for the year		
	Revenue	**2,762**	2,847
	Expenses	**(11,260)**	(14,738)
	Amortisation charge of PSC	**(119,493)**	(132,870)
	Impairment loss on PSC	**(100,650)**	(424,306)
	PRC Corporate Income Tax	**(688)**	(2,624)
	Reversal of deferred tax liabilities	**55,036**	139,294
(ii)	Other comprehensive income		
	Exchange difference on translation of foreign operations	**13,938**	95,265
(iii)	Assets and liabilities		
	Intangible assets-PSC	**2,995,633**	3,196,933
	CBM related plant and machinery	**51,146**	35,905
	Current liabilities	**(40,779)**	(30,113)
	Deferred tax liabilities *(note (30)(b))*	**(748,908)**	(799,233)
(iv)	Capital commitments *(note (32)(a))*		
	Contracted but not provided for	**28,075**	31,610

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 Cushman & Wakefield Valuation Advisory Services (HK) Ltd, an independent firm of professional valuers not connected with the Group. For the purpose of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit.

For impairment assessment purposes cash flow projections are prepared under the following assumptions:

Period of cash flow projections	12 years
Discount rate (pre-tax)	18.59%

The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the 12-year period, and pre-tax discount rate of 18.59%, which reflect specific risk, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, and exploitation method are appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's experience and expectation for the market development in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2012 is based technical reports issued by Netherland, Sewell & Associates, Inc. on 2 March 2011 and 31 October 2008. Due to the adjustment to the drilling plan and the business plan for the exploration and exploitation of the CBM, the carrying amount of PSC exceeds its estimated recoverable amount based on value-in-use calculations and an impairment loss of HK$100,650,000 (2011: HK$424,306,000) has been recognised in the consolidated income statement for the year ended 31 December 2012.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Loan to a subsidiary *(note (a))*	**2,254,004**	2,254,004
Less: Impairment loss *(note (a))*	**(52,944)**	–
Interests in subsidiaries	**2,201,060**	2,254,004
Amounts due from subsidiaries *(note (c))*	**447,200**	501,307
Less: Impairment loss *(note (b))*	**(290,430)**	(244,026)
	156,770	257,281

17. INTERESTS IN SUBSIDIARIES *(Continued)*

(a) The loan to a subsidiary of HK$2,254,004,000 (2011: HK$2,254,004,000) 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 wholly-owned subsidiary, Nation Rich Investments Limited. Based on the assessment of the financial position of the subsidiaries at 31 December 2012, the estimated recoverable amount of the investment in the subsidiary is below its investment cost and therefore, impairment loss of HK$52,944,000 (2011: Nil) has been recognised for the year ended 31 December 2012.

(b) An allowance for amounts due from subsidiaries of HK$290,430,000 (2011: HK$244,026,000) was recognised as at 31 December 2012 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 subsidiaries are unsecured, interest-free and repayable on demand.

(d) The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

		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 activities**
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
Marvel Time Holdings Limited	BVI	100%	100%	–	US$1	Inactive
Strong Way International Limited	Hong Kong	60%	–	60%	HK$1,000,000	Electronic components trading
Champ Success International Limited	Hong Kong	80%	–	80%	HK$2	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. INTERESTS IN SUBSIDIARIES *(Continued)*

(d) *(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 activities
Powerful Sky Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Canada Can-Elite Energy Limited	Canada/PRC	100%	–	100%	Can$10,000	Coalbed methane gas exploration, development and exploitation
Goal Reach Investments Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
Magic Chance Investments Limited	BVI	100%	100%	–	US$1	Securities trading
Wisedeal Investments Limited	BVI	100%	100%	–	US$1	Investment holding
New Smart Holdings Limited	Hong Kong	100%	100%	–	HK$2	Provision of corporate service
U-Cyber (Nominees) Limited	Hong Kong	100%	100%	–	HK$2	Inactive
U-Cyber Investment (Nominees) Limited	Hong Kong	100%	100%	–	HK$2	Inactive
New Smart Credit Service Limited	Hong Kong	100%	100%	–	HK$1	Provision of financing services
Fortune Spring International Limited	BVI	100%	100%	–	US$1	Investment holding
Ace Elect Investments Limited *(notes ii)*	Hong Kong	100%	–	100%	HK$1	Computer hardware trading
Profit Giant Investments Limited	BVI	100%	100%	–	US$1	Investment holding
Smart Class Investments Limited	Hong Kong	100%	–	100%	HK$1	Investment holding

17. INTERESTS IN SUBSIDIARIES *(Continued)*

(d) *(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 activities
駿達朝揚（北京）投資管理諮詢有限公司*(notes i)*	PRC	100%	–	100%	HK$2,000,000	Property investment
深圳市白雲能源技術有限公司 *(notes i & ii)*	PRC	100%	–	100%	RMB$2,000,000	Provision of technology services for CBM development and ulitlization
廣東碩華投資有限公司 *(notes i & ii)*	PRC	100%	–	100%	RMB30,000,000	Provision of financing services

Notes:

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

(ii) These companies were incorporated during the year ended 31 December 2012.

18. INTEREST IN AN ASSOCIATE

	The Group and The Company	
	2012	2011
	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 and cash flows for the year and net assets as at 31 December 2012 and 2011.

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
			2012	2011	
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	
	2012	2011
	HK$'000	*HK$'000*
Club debentures	**1,000**	1,000

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Securities held for trading:		
Listed investment in Hong Kong at fair value *(note (a))*	**27,700**	11,478
Unlisted investments *(note (b))*	**–**	10,294
	27,700	21,772

Notes:

(a) The fair value of the listed securities are determined by reference to their quoted market bid prices available on the relevant exchange at the end of the reporting period. The change in fair value of HK$653,000 (2011: HK$2,012,000) was recognised in the consolidated income statement for the year ended 31 December 2012.

(b) During the year ended 31 December 2011, the Group purchased unlisted convertible notes issued by a listed company in Hong Kong. These unlisted convertible notes were designated as financial assets at fair value through profit or loss. The fair value of these convertible notes of HK$10,294,000 as at 31 December 2011 was determined by Cushman & Wakefield Valuation Advisory Services (HK) Ltd, an independent firm of professional valuers with qualification and experience on valuing the similar financial instruments. All of the unlisted convertible notes were redeemed by the issuer in February 2012.

21. LOAN RECEIVABLE

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Treasury business:		
– secured short-term loan	**–**	30,000

The secured short-term loan represented a loan advanced to an independent corporate borrower with collateral over its property, bore interest at 2.25% per month and was repaid on 14 June 2012.

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables *(note (a))*	**85,204**	85,364	**35,042**	35,152
Deposits and prepayments	**1,488**	1,726	**170**	669
	86,692	87,090	**35,212**	35,821
Trade receivables	**3,395**	2,086	**–**	–
Less: allowance for doubtful debts *(note (c))*	**(329)**	(332)	**–**	–
	3,066	1,754	**–**	–
	89,758	88,844	**35,212**	35,821

Notes:

(a) Included in other receivables of the Group and the Company were aggregate sums of HK$85,000,000 (2011: HK$85,000,000) and HK$35,000,000 (2011: HK$35,000,000) which were placed at the escrow accounts of a firm of solicitors which acts as an escrow agent for the Group and the Company. The Group and the Company have instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to note 33(a). 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 31 December 2012.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Ageing analysis

The ageing analysis of the trade receivables of the Group, net of allowance for doubtful debts, is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
0-30 days	**2,698**	1,283
31-90 days	**356**	422
91-365 days	**12**	49
Over 365 days	**329**	332
	3,395	2,086
Less: Allowance for doubtful debts	**(329)**	(332)
	3,066	1,754

The credit terms granted to trade receivables in respect of sales of electronic components are due within 30 days to 90 days from the date of billing.

(c) 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:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**332**	332
Reversal of impairment loss	**(3)**	–
At 31 December	**329**	332

At 31 December 2012, the Group's trade receivables of HK$329,000 (2011: HK$332,000) 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. The Group does not hold any collateral over the trade receivable balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(d) Trade receivables that are not impaired

The ageing analysis of trade receivables based on the due date that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**3,054**	1,705
1-180 days	**12**	49
	3,066	1,754

Receivables that were past due but not impaired were related to 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.

23. CASH AND BANK BALANCES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at banks and in hand	**81,686**	167,752	**10,605**	45,151
Less: Pledged bank deposits	**(3,180)**	(3,150)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**78,506**	164,602	**10,605**	45,151

Bank balances carry interest ranging from 0.01% to 5.50% (2011: from 0.01% to 2.10%) per annum. Short-term bank deposits amounting to HK$3,180,000 (2011: HK$3,150,000) carry fixed interest rate of 0.18% (2011: 0.18%) per annum and are pledged to a bank to secure banking facilities granted to the Group.

24. SHARE CAPITAL

	2012		2011	
	Number of shares	**Nominal value** *HK$'000*	Number of shares	Nominal value *HK$'000*
Authorised:				
Ordinary shares of HK$0.08 (2011: HK$0.04) each	**25,000,000,000**	**2,000,000**	50,000,000,000	2,000,000
Share consolidation *(note (a))*	**–**	**–**	(25,000,000,000)	–
Capital reduction *(note (c))*	**–**	**(1,750,000)**	–	–
Ordinary shares of HK$0.01 (2011: HK$0.08) each	**25,000,000,000**	**250,000**	25,000,000,000	2,000,000
Issued and fully paid:				
At 1 January	**6,638,473,206**	**531,078**	6,638,473,206	265,539
Share consolidation *(note (a))*	**–**	**–**	(3,319,236,603)	–
Issue of shares upon open offer *(note (b))*	**–**	**–**	3,319,236,603	265,539
Capital reduction *(note (c))*	**–**	**(464,693)**	–	–
At 31 December	**6,638,473,206**	**66,385**	6,638,473,206	531,078

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 ordinary shares rank equally with regard to the Company's residual assets.

(a) Share consolidation

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 16 September 2011, every two issued and unissued shares of HK$0.04 each were consolidated into one consolidated share of HK$0.08 each with effect from 19 September 2011.

(b) Issue of new shares upon open offer

On 24 October 2011, the Company issued 3,319,236,603 new ordinary shares of HK$0.08 each at a price of HK$0.098 per share on the basis of one offer share for every one share held on 27 September 2011, the record date of the open offer. Net proceeds from such share issue amounted to HK$313,244,000, out of which, HK$265,539,000 and HK$47,705,000 were recorded in share capital and share premium, respectively.

24. SHARE CAPITAL *(Continued)*

(c) Capital reduction

On 9 October 2012, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 29 May 2012, 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$0.08 to 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. The capital reduction was completed and became effective on 9 October 2012. Credit of HK$464,693,000 arising from the capital reduction was credited to accumulated losses of the Company of HK$377,066,000 and a special capital reserve of HK$87,627,000.

All the new shares issued during the year ended 2011 ranked pari passu with the then existing shares in all respects.

25. RESERVES

(a) Movements in components of equity

The Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Company

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share premium	Capital redemption reserve	Special capital reserve	Investment reserve	Exchange reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note(b)(i)	*Note(b)(i)*	*Note(b)(ii)*	*Note(b)(iii)*	*Note(b)(iv)*		
At 1 January 2011	1,350,151	5,318	492,172	949	(1,658)	(644,858)	1,202,074
Issue of new shares upon open offer *(note 24(b))*	47,705	–	–	–	–	–	47,705
Profit for the year	–	–	–	–	–	59,320	59,320
Other comprehensive income							
– Impairment loss in available-for-sale financial assets	–	–	–	(949)	–	–	(949)
– reclassification adjustment on sale of disposal group *(note 12)*	–	–	–	–	1,658	–	1,658
Total comprehensive income for the year	–	–	–	(949)	1,658	59,320	60,029
At 31 December 2011 and 1 January 2012	1,397,856	5,318	492,172	–	–	(585,538)	1,309,808
Loss for the year	–	–	–	–	–	(123,420)	(123,420)
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	(123,420)	(123,420)
Capital reduction *(note 24(c))*	–	–	87,627	–	–	377,066	464,693
At 31 December 2012	1,397,856	5,318	579,799	–	–	(331,892)	1,651,081

25. RESERVES *(Continued)*

(a) Movements in components of equity *(Continued)*

Pursuant to the reductions in capital of the Company in 2003 ("2003 Capital Reduction"), 2009 ("2009 Capital Reduction") and 2012 ("2012 Capital Reduction"), 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, 2008 and 2011, respectively, all such recoveries up to maximum amounts of HK$367,938,000 in relation to 2003 Capital Reduction, HK$130,663,000 in relation to 2009 Capital Reduction and HK$171,025,000 in relation to 2012 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 2012 and 2011, 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 in 2012 and 2011.

(b) 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 reductions in capital of the Company completed on 21 July 2009 ("2009 Capital Reduction") and 9 October 2012 ("2012 Capital Reduction"), the amounts of HK$492,172,000 and HK$87,627,000 by which the capital reductions exceed the total accumulated losses of permanent nature of the Company as at 31 December 2008 and 31 December 2011, 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) 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(g).

(iv) 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).

25. RESERVES *(Continued)*

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

(v) Other capital reserve

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

(vi) 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.

(vii) Distributable reserves

As at 31 December 2012, 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 Nil (2011: Nil).

(c) 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 a net debt-to-capital ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings less cash and bank balances. Adjusted capital comprises all components of equity, plus net debt.

25. RESERVES *(Continued)*

(c) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2012 and 2011 was as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Other borrowings	**17,625**	19,069
Convertible notes	**686,972**	751,499
Less: Cash and bank balances	**(81,686)**	(167,752)
Total net debt	**622,911**	602,816
Total equity	**1,753,581**	1,942,375
Adjusted capital	**2,376,492**	2,545,191
Net debt-to-adjusted capital ratio	**26.21%**	23.68%

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

26. 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 be more than ten years from the date of grant of the options.

The exercise price of the share options is determinable by the directors, that it shall be at least the higher of (i) the closing price of the Company's shares on the Stock Exchange on that date of grant of share options; (ii) the average Stock Exchange's closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

26. SHARE OPTION SCHEME *(Continued)*

The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at 29 May 2012. This limit can be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

The total number of shares available for issue under the Scheme as at the end of the reporting period was 663,847,320 shares which represented 10% of the issued share capital of the Company as at the end of the reporting period. There is no minimum period for which an option to be held before it can be exercised under the Scheme. At 31 December 2012, there were no outstanding share options (2011: Nil). No share option was granted during the years ended 31 December 2012 and 2011.

27. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employee employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. Contributions to the plan vest immediately. The Group has no other material obligation for the payment of pension benefits associated with the MPF Scheme beyond the annual contributions described above.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in a defined contribution retirement scheme organised by the local government, whereby the Group is required to make contributions to the pension fund scheme at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

The Group's contributions to employee retirement benefits for the years ended 31 December 2012 were HK$310,000 (2011: HK$316,000). As at 31 December 2012, there was no material outstanding contribution to employee retirement benefits.

28. 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.

29. CONVERTIBLE NOTES

(a) The notes are unsecured and carry zero coupon interest rate with maturity date on 26 November 2013. 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. At 31 December 2012, the adjusted conversion price is HK$1.24 (2011: HK$1.24) per share after adjustments for the bonus issue of warrants in 2009, the capital reorganisation and rights issue completed in 2010, and the share consolidation and open offer completed in 2011.

Pursuant to the terms of the convertible notes, the conversion option of the convertible notes will not meet the criteria of fixed-for-fixed rules under HKAS 32 *Financial Instruments: Presentation*. 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 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 Binomial 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 the reporting period, the fair value of the embedded derivatives portion of the convertible notes were revalued by an independent professional valuer, Cushman & Wakefield Valuation Advisory Services (HK) Ltd using the Binomial Lattice Model, and the decrease in the fair value of the embedded derivatives of HK$121,000 (2011: HK$29,978,000) was credited to the consolidated income statement for the year ended 31 December 2012. 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 determined on the issue date. During the year ended 31 December 2012, the Company early redeemed convertible notes with principal value of HK$75,000,000 (2011: HK$392,417,000), resulting in a gain of HK$83,000 (2011: HK$1,587,000) on redemption which was recognised in profit or loss for the year ended 31 December 2012. As at 31 December 2012, the principal amount of outstanding convertible notes is HK$695,000,000 (2011: HK$770,000,000).

29. CONVERTIBLE NOTES *(Continued)*

(a) *(Continued)*

The movements of the embedded derivatives portion (at fair value) and liability portion (at amortised cost) of the convertible notes during the years ended 31 December 2012 and 2011 are as follows:

	The Group and the Company		
	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 amortised charged to consolidated income statement	–	12,940	12,940
Decrease in fair value credited to 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 amortised charged to consolidated income statement	–	9,177	9,177
Decrease in fair value credited to consolidated income statement	(121)	–	(121)
Redemption	–	(73,583)	(73,583)
Carrying amount of convertible notes (with principal value of HK$695,000,000) as at 31 December 2012	–	686,972	686,972

29. CONVERTIBLE NOTES *(Continued)*

(a) *(Continued)*

The following key inputs and data were applied to the Binomial Lattice Model for the derivatives embedded in the convertible notes at 31 December 2012:

	31/12/2012	31/12/2011
Spot price of the Company's shares	**HK$0.087**	HK$0.09
Exercise price of the Company's shares	**HK$1.24**	HK$1.24
Risk free rate	**0.082%**	0.369%
Expected life	**0.9 years**	1.9 years
Expected volatility of the Company's shares	**62.58%**	74.16%
Expected dividend yield	**0%**	0%

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.

(b) On 30 November 2012, the Company entered into two conditional agreements with all of the two convertible note holders with aggregate principal value of HK$695,000,000 to restructure the terms of the above convertible notes issued by the Company ("Convertible Notes Restructuring Agreements"). Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreements, the Company will issue New Convertible Notes with principal value of HK$695,000,000 for settlement of the existing convertible notes.

The New Convertible Notes will be convertible into shares of the Company at the conversion price of HK$0.065 (subject to adjustments per share at any time during the period, commencing from the issue date), will bear interest at the coupon rate of 2% per annum and will mature on 31 December 2015.

As disclosed in note 35 to the financial statements, the conditional Convertible Notes Restructuring Agreements were subsequently approved by the shareholders of the Company at its extraordinary general meeting held on 11 January 2013 and the stipulated conditions precedent to the Convertible Notes Restructuring Agreements have subsequently been fulfilled by the Company with effect on 28 January 2013.

30. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation on the consolidated statement of financial position:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Provision for current year		
– PRC Corporate Income Tax	**2,282**	2,624
– Hong Kong Profits Tax	**57**	54
	2,339	2,678

(b) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustments on business combination
	HK$'000
At 1 January 2011	906,460
Credit to consolidated income statement *(note 11(a))*	(139,294)
Exchange adjustments	32,067
At 31 December 2011 and 1 January 2012	799,233
Credit to consolidated income statement *(note 11(a))*	(55,036)
Exchange adjustments	4,711
At 31 December 2012	748,908

(c) **Deferred tax assets not recognised**

Deferred tax assets of the Group and the Company amounting to HK$6,844,000 (2011: HK$6,366,000) and HK$3,291,000 (2011: HK$3,291,000), 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.

31. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**6,726**	3,980	**–**	–
Other payables	**35,917**	28,456	**–**	–
Accrued operating expenses	**3,300**	3,253	**1,018**	1,063
	45,943	35,689	**1,018**	1,063

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

	2012	2011
	HK$'000	*HK$'000*
Current – within 1 month	**3,044**	1,026
More than 1 month but within 3 months	**3,251**	2,204
More than 3 months but within 6 months	**254**	240
More than 6 months	**177**	510
	6,726	3,980

32. COMMITMENTS

(a) Capital commitments outstanding as 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Production sharing contract		
– Contracted for but not provided for	**28,075**	31,610

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within 1 year	**3,045**	658
After 1 year but within 5 years	**1,387**	60
After 5 years	**–**	–
	4,432	718

33. CONTINGENCIES

(a) Legal proceedings

At the reporting period end, the Group and the Company had escrow sums of HK$85,000,000 and HK$35,000,000 respectively placed at a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group and the Company. Despite the repeated requests served to K&L Gates for the release of the escrow sums, the Group and the Company had not received the escrow sums. It was reported that a partner in K&L Gates was arrested by the Hong Kong Police and charged with theft and forgery with respect to escrow monies held in escrow accounts. The Group and the Company have instituted legal proceedings against K&L Gates, claiming for the return of the escrow sums. 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 31 December 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 irrespective 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.

34. MATERIAL RELATED PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material related party transactions.

Key management personnel compensation

	2012	2011
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**8,412**	8,356
Post-employment benefits	**108**	96
	8,520	8,452

Total remuneration is included in "staff costs" (see note (8)).

35. EVENTS AFTER THE REPORTING PERIOD

On 11 January 2013, an ordinary resolution was passed at the extraordinary general meeting of the Company to approve the conditional Convertible Notes Restructuring Agreements as referred to in note 29(b). On 28 January 2013, all of the stipulated conditions precedent to the Convertible Notes Restructuring Agreements have been fulfilled and completed, and the New Convertible Notes (Note 29(b)) were issued on the same date. The loss on the restructuring is estimated to be approximately HK$7 million.

36. POSSIBLE IMPACT OF AMENDMENTS, STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements.

Amendments HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2014
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 July 2012

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FINANCIAL SUMMARY

	2012 *HK$'000*	2011 *HK$'000*	2010 *HK$'000*	2009 *HK$'000*	2008 *HK$'000*
Results					
Continuing operations:					
Revenues	**37,694**	36,375	46,163	45,576	49,323
(Loss)/profit before taxation	**(257,302)**	(565,104)	(21,673)	(540,107)	471,509
Income tax	**54,345**	136,616	31,642	31,169	2,571
(Loss)/Profit for the year from continuing operations	**(202,957)**	(428,488)	9,969	(508,938)	474,080
Profit/(Loss) for the year from discontinued operations, net	**–**	34,419	–	(71,757)	(163,641)
(Loss)/profit for the year	**(202,957)**	(394,069)	9,969	(580,695)	310,439
Other comprehensive income for the year	**14,163**	66,161	98,945	17,709	8,169
Total comprehensive (loss)/income for the year	**(188,794)**	(327,908)	108,914	(562,986)	318,608
Profit/(loss) for the year attributable to:					
Owner of the Company	**(202,223)**	(393,397)	10,442	(580,695)	310,439
Non-controlling interests	**(734)**	(672)	(473)	–	–
	(202,957)	(394,069)	9,969	(580,695)	310,439
Assets and liabilities					
Total assets	**3,255,368**	3,550,543	4,120,526	3,795,040	3,983,270
Total liabilities	**(1,501,787)**	(1,608,168)	(2,163,487)	(2,620,398)	(3,245,042)
Total equity	**1,753,581**	1,942,375	1,957,039	1,174,642	738,228