2013 Interim Report

New Smart Group

NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

CHIEF EXECUTIVE OFFICER

Lu Guoping

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

Crowe Horwath (HK) 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
Share stock code: 91
Warrant stock code: 1042

COMPANY WEBSITE

www.newsmartgroup.com

The Board of Directors (the "**Board**" or "**Directors**") of New Smart Energy Group Limited (the "**Company**") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2013 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the Period was HK$38,105,000 (2012: HK$20,987,000), representing an increase of 81.56%. Such increase of turnover was due to the increase of contribution from the electronic components business segment which diversifies the range of products distributed during the Period. The turnover generated by the electronic components business was doubled, from HK$15,591,000 in 2012 to HK$34,068,000 in 2013, representing 89.40% of the Group's turnover. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiary ("**CBM Operating Subsidiary**") and the treasury segment contributed HK$2,106,000 (2012: HK$1,430,000) and HK$1,931,000 (2012: HK$3,966,000) to the Group in 2013, representing 5.53% and 5.07% of the Group's turnover respectively. However, the Group recorded a gross loss of HK$531,000 which resulted from the fair value loss on financial assets through profit or loss in securities trading business (2012: gross profit of HK$8,619,000).

The Group's loss for the Period was HK$59,368,000 (2012: HK$56,621,000). Substantial part of Group's loss was mainly due to the accounting treatments of various items, such as amortization of the Production Sharing Contract ("**PSC**") amounted to HK$58,490,000 (2012: HK$59,781,000), gain on redemption of convertible notes amounted to HK$21,000 (2012: HK$25,000), fair value gain on convertible notes' embedded derivatives amounted to HK$44,732,000 (2012: HK$121,000), imputed interest on convertible notes amounted to HK$32,069,000 (2012: HK$4,705,000), loss on restructuring of convertible notes amounted to HK$7,350,000 (2012: Nil) and deferred tax income amounted to HK$14,622,000 (2012: HK$14,945,000). The aggregate net result of the abovementioned accounting loss for 2013 was HK$38,534,000 (2012: HK$49,395,000). The accounting profit and loss mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2013 and 2012, if excluding those accounting profit and loss, was HK$20,834,000 and HK$7,226,000 respectively. The increase in loss was mainly due to the net loss on financial assets at fair value through profit or loss and increase of administrative expenses, such as staff cost, rental expenses and overheads of the new subsidiaries incorporated in the PRC.

The Group recorded a loss attributable to owners of the Company of HK$59,226,000 (2012: HK$56,395,000). The basic and diluted loss per share was HK1.78 cents (2012: HK1.70 cents (restated)). The Directors do not recommend the payment of dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had current assets of HK$197,370,000 (31 December 2012: HK$199,144,000) and current liabilities of HK$62,465,000 (31 December 2012: HK$752,879,000) and cash and bank balances of HK$72,401,000 (31 December 2012: HK$81,686,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 315.97% (31 December 2012: 26.45%).

The Group's gearing ratio, being a ratio of net debt to total capital, was 25.43% (31 December 2012: 26.21%). Net debt is calculated as total borrowings, as shown in the condensed consolidated statement of financial position, less cash and bank balances. Total capital is calculated as equity, as shown in the condensed consolidated statement of financial position, plus net debt.

In June 2013, the Company successfully raised net proceeds of HK$40,400,000 by issuing 331,923,660 new ordinary shares of HK$0.02 each on the basis of one rights share for every ten shares at a subscription price of HK$0.13 per rights share with bonus warrants on the basis of two bonus warrants for every one rights share taken up under a rights issue ("**Rights Issue**"). Net proceeds were primarily used for the partial repayment of convertible notes and the general working capital of the Group.

Under the Rights Issue, a total of 663,847,320 bonus warrants were issued by the Company on the basis of two bonus warrants for every fully paid rights share issued. At 30 June 2013, the initial 663,847,320 units of bonus warrants remained outstanding. If all warrants are exercised, net proceeds of approximately HK$65,800,000 will be raised. The net proceeds will be used for partial repayment of convertible notes, the general working capital of the Group as well as for future business development.

After the Rights Issue, convertible notes with principal amount of HK$18,000,000 were early redeemed by cash of HK$17,640,000 with a discount of HK$360,000 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.

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.

SHARE CONSOLIDATION

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 20 May 2013, the proposed share consolidation on the basis that every two issued and unissued shares with par value of HK$0.01 each consolidated into one consolidated share of HK$0.02 each was approved. The share consolidation was completed and became effective on 21 May 2013.

RIGHTS ISSUE WITH BONUS WARRANTS

In June 2013, the Company allotted 331,923,660 new ordinary shares of HK$0.02 each on the basis of one rights share for every ten shares at a subscription price of HK$0.13 per rights share with bonus warrants on the basis of two bonus warrants for every one rights share taken up under a rights issue ("**Rights Issue**"). Net proceeds of HK$40,400,000 were primarily used for the repayment of convertible notes and the general working capital of the Group.

A total of 663,847,320 bonus warrants were issued by the Company on the basis of two bonus warrants for every fully paid rights share issued under the Rights Issue. The holders of these bonus warrants are entitled to subscribe in cash for 663,847,320 new shares at an initial exercise price of HK$0.10 per share at anytime during the period commencing from 24 June 2013 to 23 June 2014 (both dates inclusive). At 30 June 2013, the initial 663,847,320 units of bonus warrants remained outstanding.

COMMITMENTS

Details of the commitments of the Group are set out in note 21.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

Save as disclosed in note 22, the Group had no other contingent liabilities as at 30 June 2013.

LITIGATION

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

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

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

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

CHARGED ON ASSETS

The short-term bank deposits, amounted to HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 30 June 2013.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 24, the Group had no other material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group had 67 employees, of which 26 were in Hong Kong and 41 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

BUSINESS REVIEW

Coalbed Methane ("CBM") Business

The Group, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("**Can-Elite**") runs the CBM business in Anhui Province, the principal business activities of which are coalbed methane exploration, development and production. Pursuant to the Production Sharing Contract entered into between China United Coalbed Methane Corporation Limited ("**China United**") and Can-Elite (the "**PSC**"), Can-Elite can exploit the coalbed methane resources in a total exploration area of approximately 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.

As the five-year exploration period was expired in the end of March 2013, Can-Elite had reached an agreement with China United as for the extension of the exploration period for two years, starting from 1 April 2013 and ending on 31 March 2015, during which period Can-Elite shall complete the exploration of remaining sections within the Contract Area.

China United has been appointed to prepare the reserve report for part of the Contract Area, and the report is under processing. As required by China United, Can-Elite drilled one more well for parametric purpose, and expanded the capacity of five drainage and collection wells. Meanwhile, it further collected and submitted information about the geology, testing wells, drainage and collection of those sections. The reserve report is expected to be completed by the end of this year. China United will help Can-Elite submit the report to the Office for the Assessment of Oil and Gas Reserve (石油天然氣儲量評審辦公室) under the Ministry of Land and Resource of China for approval. Once approved, Can-Elite will compose the development plan of this area and file it with the National Development and Reform Commission of China (the "**NDRC**"), and will start the development according to the plan approved by the NDRC. The compilation of the reserve report symbolizes the transition of part of our Contract Area from exploration stage to development stage.

In addition, Can-Elite started to invite tenders for the exploration works of the area not yet explored. It negotiated with some institutions with R&D and construction competency for cooperation on the basis of sharing risks and interests so as to reduce the exploration risks. Can-Elite will work with Shenzhen Clouds to further study the information of the Contract Area, making use of advantages brought about by experts and technologies of Shenzhen Clouds in the PRC and overseas. Can-Elite will apply international cutting-edge drilling technologies for better drilling effects.

Can-Elite conducted studies of, and investigations in, pre-sale preparation works, such as connection design of the inter-well network, selection of compressing facilities and trial sale permission licenses, aiming at turning the capacity into revenue as soon as possible.

As at the Period end, the Group drilled a total of 18 exploration wells, 7 of which has commenced production.

Under the exploration stage, the CBM business contributed about HK$2,106,000 of the revenue in this Period (2012: HK$1,430,000). A loss of HK$55,326,000 (2012: HK$67,844,000) was recorded mainly resulting from the amortization of PSC of HK$58,490,000 (2012: HK$59,781,000).

Shenzhen Clouds Energy Technology Limited ("**Shenzhen Clouds**"), another wholly-owned subsidiary of the Group, 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 Period, Shenzhen Clouds has signed several letters of intent with different coal mines located in Guizhou Province. Through the co-operation between Shenzhen Clouds and the relevant coal mines, using a combination of domestic advanced technology and international advanced technology such as the geosteering drilling technique, combined with the extraction and processing technique, the target of high efficient management and comprehensive utilization of coalbed methane can be achieved.

Electronic Components Business

To diversify the range of products for its electronic components business segment, in early of 2013, the Group, through its new wholly-owned subsidiaries, Ace Elect Investments Limited and Alpha Guidance Limited, ran computer products distribution, such as Notebook, mini-PC, hard drives, memory storage devices, etc in Hong Kong.

For the Period, this new business generated remarkable revenue with amount of HK$21,357,000, representing around 62.69% of the total revenue of the electronic components segment.

The revenue generated from the operation of design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the PRC was HK$12,711,000 (2012: HK$15,591,000). The Group may consider continuing to streamline its operation and adopt effective cost management measures to maintain its competitive edge.

Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group, through its wholly-owned subsidiary Magic Chance Investments Limited ("**Magic Chance**"), engages in securities and debts trading in Hong Kong with a view for short to medium term profit. In light of the unstable stock market, the management reduces the investments in securities during the Period in order to minimize the business risk. For the Period, a loss of HK$4,243,000 was recorded due to the fair value changes of the securities bought.

New Smart Credit Service Limited ("**New Smart Credit**"), another wholly-owned subsidiary of the Group, carried on money lending business in Hong Kong since 2011. Due to the reallocation of the funds of the Group, the amount of fund distributed to the money lending business decreased substantially. As a result, interest income generated from the money lending business dropped comparatively to HK$217,000, which represents a 93.72% decrease as compared to the corresponding period in 2012.

PROSPECTS

According to the "12th Five-Year Plan for the Development of Natural Gas" released by the NDRC and the National Energy Administration of China (the "**NEA**"), it is estimated that the average annual increase in the consumption of natural gas for the "12th Five-Year Period" will exceed 20 billion cubic meters, reaching 230 billion cubic meters by 2015, indicating huge potential demand for natural gas in the PRC in the future. Meanwhile, natural gas is underpriced in the PRC, failing to fully reflect the supply-demand changes and the scarcity of resources and thereby resulting in irrational consumption of natural gas. Accordingly, an obvious upward trend of prices of natural gas in the PRC is well expected. In this regard, the reasonable and efficient development and use of Contract Area of the Group will on one hand meet the ever-growing demand for natural gas in the PRC and on the other hand bring about considerable return to the Group.

In the second half of the year, the Group will continue to summarize its success experience and proactively try international cutting-edge drilling technologies through Can-Elite and Shenzhen Clouds to work out affordable drilling plans with low cost and high output. Pre-sale preparation works for areas covered by the current reserve report are expected to be completed by the end of 2013, and trial sale to be started in 2014. Exploration for remaining sections of the Contract Area is planned to be completed within the extended exploration period of two years.

Exploration of some sections within the Contract Area are yet to be completed. The Group will concentrate its human and capital resources to turn the exploration period into the development and production stage, realizing the development potential into promising prospects.

At the same time, the Group will closely monitor the development of its treasury business and electronic components business, and will generate higher return for the Group and shareholders by utilizing our resources in an effective way.

DIRECTORS' INTERESTS IN CONTRACT

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

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

As at 30 June 2013, 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 Securities and Futures Ordinance ("**SFO**")) which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 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**").

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

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2013, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Nature of interest	Interest in Shares and underlying Shares	Approximate Percentage of the Issued Share Capital
Che Weng Kei	Beneficial and Corporate	351,600,000	9.63%
Leung Yuk Kit	Corporate	427,292,500	11.70%
New Alexander Limited *(Note 1)*	Beneficial	5,308,333,333	145.39%
Smart Dragon Global Limited *(Note 2)*	Beneficial	853,120,833	23.37%

Notes:

(1) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due 2015 in an aggregate outstanding amount of HK$637,000,000 as at 30 June 2013.

(2) Smart Dragon Global Limited, through its wholly-owned subsidiary, Toprise Capital Limited, is interested in the convertible notes convertible into shares issued by the Company due 2015 in an aggregate outstanding amount of HK$40,000,000 as at 30 June 2013. These 853,120,833 Shares and underlying Shares is calculated based on 1,654,959,615 Shares and underlying Shares held by Smart Dragon Global Limited as at 29 January 2013 after taking into account the share consolidation effective on 21 May 2013 and adjustment of convertible notes effective on 30 May 2013.

CORPORATE GOVERNANCE

The Company had complied with the Corporate Governance Code in Appendix 14 to the Main Board Listing Rules (the "**CG Code**") throughout the Period with the following major deviations:–

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 people 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 (the "**CEO**") of the Company with effect from 1 September 2009, which constitutes a deviation from the code provision A.2.1 during the Period. Mr. Tong Nai Kan retired by rotation as executive director of the Company at the conclusion of the annual general meeting of the Company on 27 June 2013 (the "**AGM**"). He also ceased to act as the chairman of the Company and no longer assumed the role of the CEO following his retirement from the office of the executive director. The duties and responsibilities of the CEO were shared among the members of the Board.

On 9 July 2013, Mr. Albert Saychuan Cheok was appointed as chairman and independent non-executive director of the Company and Mr. Lu Guoping was appointed as the CEO of the Company.

CORPORATE GOVERNANCE *(Continued)*

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

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

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. In accordance with the Articles which were amended by a special resolution at the extraordinary general meeting held on 20 May 2013 for the purpose of compliance with the CG Code, a director appointed as Chairman or deputy Chairman shall be subject to the same provisions as to rotation, resignation and removal as the other Directors.

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

Under the 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.

CORPORATE GOVERNANCE *(Continued)*

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

Due to other business engagements, some INEDs could not attend the extraordinary general meetings of the Company held on 11 January 2013 and 20 May 2013, which constitutes a deviation from the code provision A.6.7 during the Period. However, at the respective general meeting of the Company, there were executive Directors and INEDs present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

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

Under the code provision E.1.2, the chairman of the Board should attend the annual general meeting. Due to other business engagements, Mr. Tong Nai Kan, the retired chairman of the Board, did not attend the AGM, which constitutes a deviation from the code provision E.1.2 during the Period. Mr. Tam Tak Wah, the executive Director, was elected as the chairman of the AGM pursuant to the Articles.

CHANGES REGARDING THE DIRECTORS OR SUPERVISOR

The changes regarding the Directors or supervisor as required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules are set out below:

(1) Ms. Tsang Ching Man, as the company secretary and chief financial officer of the Company, her monthly salary was increased from HK$63,600 to HK$66,200 with effect from 1 April 2013.

(2) Mr. Lo Tai In retired by rotation as executive director of the Company at the conclusion of the AGM on 27 June 2013. Mr. Lo also ceased to act as the authorised representative of the Company following his retirement from the office of the executive director.

(3) Mr. Tong Nai Kan retired by rotation as executive director of the Company at the conclusion of the AGM on 27 June 2013. Mr. Tong also ceased to act as the chairman of the Company and no longer assumed the role of the CEO following his retirement from the office of the executive director.

(4) Mr. Tam Tak Wah was appointed as an authorised representative of the Company on 27 June 2013. Mr. Tam resigned as an independent non-executive director of Goldenway, Inc, a company the common stock of which are traded in the OTCQB of the U.S.A., on 16 August 2013.

CHANGES REGARDING THE DIRECTORS OR SUPERVISOR *(Continued)*

(5) Mr. Albert Saychuan Cheok was appointed as an INED and the chairman of the Board of the Company on 9 July 2013. He is also the chairman and a member of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company.

(6) Mr. Lu Guoping was appointed as the CEO of the Company on 9 July 2013.

(7) Mr. Chan Tsz Kit resigned as the chairman of the Nomination Committee but remains as a member of the Nomination Committee on 9 July 2013.

(8) Mr. Wang Li resigned as a trust manager of Citic Trust Co. Ltd.. He is currently a senior manager of Hongyuan Huizhi Investment Co., Ltd..

(9) Mr. Cheng Wai Keung was appointed as an executive director of Fava International Holdings Limited, the securities of which are listed on the GEM Board of the Stock Exchange, on 23 August 2013.

CONSTITUTIONAL DOCUMENTS

The Articles of Association of the Company was amended with approvals from the shareholders of the Company in the extraordinary general meeting of the Company on 20 May 2013. The major amendments to the Articles of Association are summarised as follows:

(a) changing the minimum notice period for the general meetings of the Company;

(b) removing the 5% exemption for directors voting and be counted towards quorum in Board meetings regards matters in which they have interests;

(c) requiring a physical Board meeting in lieu of written resolution to deal with matter in which a substantial shareholder or a Director has a conflict of interests; and

(d) certain housekeeping amendments to the Articles of Association regarding (i) maximum number of directors; (ii) remuneration of the Directors; (iii) appointment or removal of Chairman or Deputy Chairman; (iv) notice of Board meeting; (v) Board written resolution; and (vi) appointment or removal of auditors.

Details of amendments are set out in full in the notice of extraordinary general meeting dated 24 April 2013.

An updated and consolidated version of the Company's Memorandum and Articles of Association is available on the websites of the Hong Kong Stock Exchange and the Company.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

REVIEW OF INTERIM RESULTS

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

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

ACKNOWLEDGEMENT

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

By order of the Board
New Smart Energy Group Limited
Albert Saychuan Cheok
Chairman

Hong Kong, 29 August 2013

Crowe Horwath

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港 銅鑼灣 禮頓道77號 禮頓中心9樓
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Causeway Bay, Hong Kong

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

Introduction

We have reviewed the condensed consolidated financial statements of New Smart Energy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 42, which comprises the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material aspects, in accordance with HKAS 34.

CROWE HORWATH (HK) CPA Limited
Certified Public Accountants
Hong Kong, 29 August 2013

Leung Chun Wa
Practising Certificate Number P04963

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

		Unaudited Six months ended	
	Note	**30 June 2013** ***HK$'000***	30 June 2012 *HK$'000*
Turnover	3	**38,105**	20,987
Revenue	3	**32,246**	23,010
Cost of sales		**(32,777)**	(14,391)
Gross (loss)/profit		**(531)**	8,619
Other revenue and income	4	**3,719**	2,767
Fair value gain on convertible notes' embedded derivatives	18	**44,732**	121
Gain on redemption of convertible notes	18	**21**	25
Loss on restructuring of convertible notes	18	**(7,350)**	–
Administrative expenses		**(23,905)**	(18,515)
Amortisation of production sharing contract	11	**(58,490)**	(59,781)
Finance costs	6	**(32,078)**	(4,747)
Loss before taxation	5	**(73,882)**	(71,511)
Income tax	7	**14,514**	14,890
Loss for the period		**(59,368)**	(56,621)
Loss for the period attributable to:			
Owners of the Company		**(59,226)**	(56,395)
Non-controlling interests		**(142)**	(226)
		(59,368)	(56,621)
Loss per share (expressed in HK cents)	9		(Restated)
Basic		**(1.78)**	(1.70)
Diluted		**(1.78)**	(1.70)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Unaudited Six months ended	
	Note	**30 June 2013** ***HK$'000***	30 June 2012 *HK$'000*
Loss for the period		**(59,368)**	(56,621)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
– exchange differences on translation of financial statements of foreign operations		**46,880**	15,672
Total comprehensive loss for the period		**(12,488)**	(40,949)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(12,346)**	(40,723)
Non-controlling interests		**(142)**	(226)
		(12,488)	(40,949)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	**Unaudited 30 June 2013** *HK$'000*	Audited 31 December 2012 *HK$'000*
Non-current assets			
Property, plant and equipment	10	**59,621**	59,591
Intangible assets	11	**3,000,782**	2,995,633
Available-for-sale financial assets		**1,000**	1,000
		3,061,403	3,056,224
Current assets			
Financial assets at fair value through profit or loss	12	**24,611**	27,700
Loan receivables	13	**3,591**	–
Trade and other receivables	14	**96,767**	89,758
Pledged bank deposits		**180**	3,180
Cash and cash equivalents		**72,221**	78,506
		197,370	199,144
Total assets		**3,258,773**	3,255,368
EQUITY			
Share capital	15	**73,023**	66,385
Reserves		**1,711,259**	1,689,075
Equity attributable to owners of the Company		**1,784,282**	1,755,460
Non-controlling interests		**(2,021)**	(1,879)
Total equity		**1,782,261**	1,753,581

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Note	**Unaudited 30 June 2013 HK$'000**	Audited 31 December 2012 HK$'000
Non-current liabilities			
Convertible notes – unsecured	18	**663,851**	–
Deferred tax liabilities	19	**750,196**	748,908
		1,414,047	748,908
Current liabilities			
Other borrowings – unsecured	17	**16,492**	17,625
Convertible notes – unsecured	18	**–**	686,972
Trade and other payables	20	**43,973**	45,943
Tax payable		**2,000**	2,339
		62,465	752,879
Total liabilities		**1,476,512**	1,501,787
Total equity and liabilities		**3,258,773**	3,255,368
Net current assets/(liabilities)		**134,905**	(553,735)
Total assets less current liabilities		**3,196,308**	2,502,489

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Special capital reserve *HK$'000*	Other capital reserve *HK$'000*	Warrant reserve *HK$'000* *(Note 16)*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 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 period	–	–	–	–	–	–	–	(56,395)	(56,395)	(226)	(56,621)
Other comprehensive income											
Exchange differences arising on translation	–	–	–	–	–	–	15,672	–	15,672	–	15,672
Total comprehensive income for the period	–	–	–	–	–	–	15,672	(56,395)	(40,723)	(226)	(40,949)
At 30 June 2012 (Unaudited)	531,078	1,397,856	5,318	492,172	1,805	–	229,276	(754,708)	1,902,797	(1,371)	1,901,426
At 1 January 2013	**66,385**	**1,397,856**	**5,318**	**579,799**	**1,805**	**-**	**227,767**	**(523,470)**	**1,755,460**	**(1,879)**	**1,753,581**
Issue of shares under rights issue, net of share issuance costs of HK$1,982,000	**6,638**	**34,530**	**-**	**-**	**-**	**-**	**-**	**-**	**41,168**	**-**	**41,168**
Issue of warrants *(Note16)*	**-**	**(21,941)**	**-**	**-**	**-**	**21,941**	**-**	**-**	**-**	**-**	**-**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(59,226)**	**(59,226)**	**(142)**	**(59,368)**
Other comprehensive income											
Exchange differences arising on translation	**-**	**-**	**-**	**-**	**-**	**-**	**46,880**	**-**	**46,880**	**-**	**46,880**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**46,880**	**(59,226)**	**(12,346)**	**(142)**	**(12,488)**
At 30 June 2013 (Unaudited)	**73,023**	**1,410,445**	**5,318**	**579,799**	**1,805**	**21,941**	**274,647**	**(582,696)**	**1,784,282**	**(2,021)**	**1,782,261**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Unaudited Six months ended	
	30 June 2013 *HK$'000*	30 June 2012 *HK$'000*
Net cash (used in)/generated from operating activities	**(28,740)**	11,382
Net cash generated from investing activities	**2,287**	6,074
Net cash generated from/(used in) financing activities	**21,886**	(49,745)
Net decrease in cash and cash equivalents	**(4,567)**	(32,289)
Cash and cash equivalents at beginning of period	**78,506**	164,602
Effect of foreign exchange rate changes	**(1,718)**	(169)
Cash and cash equivalents at end of period	**72,221**	132,144

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

- Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 11, Joint arrangements
- HKFRS 12, Disclosures of interests in other entities
- HKFRS 13, Fair value measurement
- Revised HKAS 19, Employee benefits
- Annual Improvements to HKFRSs 2009-2011 Cycle
- Amendment to HKFRS 7- Disclosures-Offsetting financial assets and financial liabilities

Amendments to HKAS 1, Presentation of items of other comprehensive income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (i) items that will not be reclassified subsequently to profit or loss; (ii) items that may be reclassified subsequently to profit or loss. The amendments have been applied retrospectively. The adoption of Amendments to HKAS 1 has no significant impact on the Group's results and financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation- Special purpose entities. It introduces a single control model to determine whether an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 11, Joint arrangements

HKFRS 11, which replaces HKAS 31, Interests in joint ventures, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice. As a result of the adoption of HKFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure additional requirements only apply to full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement requirements prospectively. The Group has provided these disclosures in note 23.

The adoption of the above new standards and amendments did not have any significant effect on the Group's condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover and revenue

	Unaudited Six months ended 30 June 2013 HK$'000	Unaudited Six months ended 30 June 2012 HK$'000
Turnover:		
Sales of electronic components	**34,068**	15,591
Sales of coalbed methane products	**2,106**	1,430
Proceeds from trading of securities	**1,714**	508
Interest income from money lending	**217**	3,458
	38,105	20,987

	Unaudited Six months ended 30 June 2013 HK$'000	Unaudited Six months ended 30 June 2012 HK$'000
Revenue:		
Sales of electronic components	**34,068**	15,591
Sales of coalbed methane products	**2,106**	1,430
Gain on trading of securities	**98**	48
Net (loss)/gain on financial assets at fair value through profit of loss	**(4,243)**	2,483
Interest income from money lending	**217**	3,458
	32,246	23,010

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

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

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

(i) Segment results

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

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

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

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

Six months ended 30 June 2013 (unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**34,068**	**2,106**	**(3,928)**	**32,246**
Reportable segment results – profit/(loss)	**(101)**	**(55,326)**	**(5,210)**	**(60,637)**
Other information:				
Amortisation for the period	**–**	**58,490**	**–**	**58,490**
Depreciation for the period	**17**	**1,454**	**69**	**1,540**
Gain on redemption of convertible notes	**–**	**(21)**	**–**	**(21)**
Other income	**(78)**	**(2,821)**	**(820)**	**(3,719)**
Interest expenses	**6**	**32,072**	**–**	**32,078**
Major non-cash item:				
– Fair value change of convertible notes' embedded derivatives	**–**	**(44,732)**	**–**	**(44,732)**

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Six months ended 30 June 2012 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	15,591	1,430	5,989	23,010
Reportable segment results – profit/(loss)	(566)	(67,844)	6,971	(61,439)
Other information:				
Amortisation for the period	–	59,781	–	59,781
Depreciation for the period	–	1,485	35	1,520
Gain on redemption of convertible notes	–	(25)	–	(25)
Other income	(53)	(924)	(1,790)	(2,767)
Interest expenses	38	4,705	4	4,747
Major non-cash item:				
– Fair value change of convertible notes' embedded derivatives	–	(121)	–	(121)

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

	Unaudited Six months ended 30 June 2013 *HK$'000*	30 June 2012 *HK$'000*
Revenue		
Consolidated revenue	**32,246**	23,010
Profit or loss		
Reportable segment loss	**(60,637)**	(61,439)
Unallocated head office and corporate expenses	**(13,245)**	(10,072)
Consolidated loss before taxation	**(73,882)**	(71,511)

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographical information

	Hong Kong	PRC	Total
	HK$'000	*HK$'000*	*HK$'000*
For the six months ended 30 June 2013 (Unaudited)			
Revenue	30,140	2,106	32,246
For the six months ended 30 June 2012 (Unaudited)			
Revenue	21,580	1,430	23,010

4. OTHER REVENUE AND INCOME

	Unaudited Six months ended	
	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
Exchange gain, net	**2,570**	955
Bank interest income	**812**	1,419
Sundry income	**337**	393
	3,719	2,767

5. LOSS BEFORE TAXATION

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

	Unaudited Six months ended	
	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
Staff costs (including directors' emoluments)		
– Salaries and other emoluments	**12,215**	9,996
– Contributions to retirement scheme	**651**	283
	12,866	10,279
Depreciation of property, plant and equipment	**1,905**	1,860
Amortisation on production sharing contract	**58,490**	59,781
Operating lease charges in respect of land and buildings	**2,019**	1,292
Gain on disposal of property, plant and equipment	**–**	(65)
Cost of inventories sold	**32,777**	14,391

6. FINANCE COSTS

	Unaudited Six months ended 30 June 2013 HK$'000	30 June 2012 HK$'000
Interest expenses on the following borrowings wholly repayable within five years:		
– Imputed interest on convertible notes	**32,069**	4,705
– Interest on bank overdrafts	**9**	42
	32,078	4,747

7. INCOME TAX

	Unaudited Six months ended 30 June 2013 HK$'000	30 June 2012 HK$'000
Current taxation		
Provision for the period	**108**	55
Reversal of deferred tax liabilities *(note 19)*	**(14,622)**	(14,945)
Tax credit	**(14,514)**	(14,890)

Notes:

(a) No Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the six months ended 30 June 2013 (2012: Nil).

(b) The Group's subsidiaries in the People's Republic of China (the "PRC") are subject to PRC Corporate income tax rate of 25% (2012: 25%) for the six months ended 30 June 2013.

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

8. DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2013 (2012: Nil).

9. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the loss attributable to owners of the Company divided by the weighted average of 3,329,826,339 ordinary shares in issue during the current period (six months ended 30 June 2012: 3,316,899,112 (restated) ordinary shares) as restated after the adjusting effect of share consolidation on 21 May 2013 and the rights issue on 24 June 2013.

	Unaudited Six months ended	
	30 June 2013	30 June 2012
	HK$'000	*HK$'000*
Loss used in the calculation of basic loss per share	**(59,226)**	(56,395)
Weighted average number of ordinary shares for the purpose of basic loss per share:		(Restated)
Issued ordinary shares at 1 January	**3,316,899,112**	3,316,899,112
Effect of rights issue	**12,927,227**	–
Weighted average number of ordinary shares at 30 June	**3,329,826,339**	3,316,899,112

(b) Diluted

The diluted loss per share for the periods ended 30 June 2013 and 2012 is same as the conversion of convertible notes and exercise of warrants would result in decrease in loss per share and accordingly, there was no dilutive effect on the basic loss per share for both periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Property, plant and equipment
	HK$'000
Carrying amount as at 1 January 2013	59,591
Exchange adjustments	1,222
Additions	713
Depreciation	(1,905)
Carrying amount as at 30 June 2013	59,621

11. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2012	4,036,056
Exchange adjustments	23,734
At 31 December 2012 and 1 January 2013	4,059,790
Exchange adjustments	86,981
At 30 June 2013	4,146,771
Accumulated amortisation and impairment	
At 1 January 2012	839,123
Charge for the year	119,493
Impairment loss	100,650
Exchange adjustments	4,891
At 31 December 2012 and 1 January 2013	1,064,157
Charge for the period	58,490
Exchange adjustments	23,342
At 30 June 2013	1,145,989
Carrying amount	
At 30 June 2013 (Unaudited)	3,000,782
At 31 December 2012 (Audited)	2,995,633

The PSC is amortised on straight-line basis over the remaining contract terms of 25.9 years of the PSC.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Equity securities held for trading:		
– Listed in Hong Kong	**24,611**	27,700

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

Fair value loss of HK$4,243,000 has been recognised in the condensed consolidated income statement for the period ended 30 June 2013.

13. LOAN RECEIVABLES

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Treasury business:		
– secured short-term loans	**3,591**	–

The secured short-term loans represent two loans advanced to two independent borrowers, bear interest at 1.25% and 1.225% per month and due for repayment on 23 January 2014 and by 120 successive monthly installments, respectively. Both loans are subject to demand repayment clause. As the Group has collateral over the borrowers' properties and the market value of the mortgaged properties exceeded the carrying value of loan receivables, the directors of the Company are of the view that no impairment loss is required as at 30 June 2013.

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Trade receivables	**10,568**	3,395
Provision for impairment	**(329)**	(329)
	10,239	3,066
Other receivables *(note)*	**85,385**	85,204
Deposits and prepayments	**1,143**	1,488
	96,767	89,758

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Note:

Included in other receivables is an aggregate balance of HK$85,000,000 which was placed at the escrow account of a firm of solicitors, which acts as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of the escrow sum of HK$85,000,000 as referred to in note 22(a). The directors of the Company are of the opinion, based on the legal advice sought, that the escrow sum can be recovered in full, and therefore, no impairment is required as at 30 June 2013.

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.

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

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Neither past due nor impaired	**10,239**	2,698
Less than 1 month past due	**–**	356
1 to 3 months past due	**–**	12
	10,239	3,066

15. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares** *HK$'000*
Authorised:		
At 1 January 2012 of HK$0.08 each	25,000,000,000	2,000,000
Capital reduction	–	(1,750,000)
At 31 December 2012 and 1 January 2013 of HK$0.01 each	25,000,000,000	250,000
Share consolidation *(note (i))*	(12,500,000,000)	–
At 30 June 2013 of HK$0.02 each	12,500,000,000	250,000
Issued and fully paid:		
At 1 January 2012	6,638,473,206	531,078
Capital reduction	–	(464,693)
At 31 December 2012 and 1 January 2013	6,638,473,206	66,385
Share consolidation *(note (i))*	(3,319,236,603)	–
Issue of shares upon rights issue *(note (ii))*	331,923,660	6,638
At 30 June 2013	3,651,160,263	73,023

15. SHARE CAPITAL *(Continued)*

Notes:

(i) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 May 2013, every two issued and unissued shares of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each with effect from 21 May 2013.

(ii) On 24 June 2013, the Company issued 331,923,660 rights shares of HK$0.02 each at a price of HK$0.13 per right share on the basis of one rights share for every ten shares held on 29 May 2013 with bonus warrants on the basis of two bonus warrants for every one rights share taken up.

16. WARRANTS

On 24 June 2013, bonus warrants of 663,847,320 warrants ("**Warrants**") were issued on the basis of two bonus warrants for every one rights share taken up. Each bonus warrant entitled the holder to subscribe one share of the Company at an initial subscription price of HK$0.10, subject to adjustments in accordance with the terms of the Warrants. The Warrants are exercisable at any time from 24 June 2013 to 23 June 2014. During the period ended 30 June 2013, no Warrant was exercised to subscribe for shares of the Company.

The warrant reserve represents the fair value of Warrants at the issue date. The reserve will be transferred to share capital and share premium account upon the exercise and lapse of the warrants.

17. OTHER BORROWINGS – UNSECURED

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

18. CONVERTIBLE NOTES – UNSECURED

The Convertible Notes, which were issued on 26 November 2008, ("Convertible Notes I"), bore zero interest and will be matured on 26 November 2013 and the holders are entitled to convert any part of the principal amount into ordinary shares of the Company at an initial conversion price of HK$0.25 per conversion share, subject to adjustments, at any time between the date of issue of Convertible Notes I and 26 November 2013. The fair value of Convertible Notes I was divided into a liability component and an embedded derivative component. The conversion price for the Convertible Notes I was adjusted to HK$1.24 on 28 September 2011.

Implicit interest was accrued on the liability component of the Convertible Notes I by applying an effective interest rate of 1.29% per annum determined on the issue date.

On 30 November 2012, the Company and each of the Convertible Notes I holders entered into Convertible Note Restructuring Agreement to restructure certain terms of the Convertible Notes I. On 28 January 2013, the liability and embedded derivative components of Convertible Notes I, with principal amount of HK$695,000,000 have been derecognised as a result of substantial changes in the terms of Convertible Notes I.

18. CONVERTIBLE NOTES – UNSECURED *(Continued)*

On 28 January 2013, the Company issued New Convertible Notes with principal amounts of HK$655,000,000 and HK$40,000,000 to New Alexander Limited and Toprise Capital Limited, respectively (collectively referred to as the "**New Convertible Notes**") in exchange for their holdings in Convertible Notes I. Both New Alexander Limited and Toprise Capital Limited are independent third parties of the Group.

The original conversion price was HK$0.065 per conversion share, subject to anti-dilutive adjustment, bear interest at 2% per annum payable semi-annually in arrear on 30 June and 31 December and will mature on 31 December 2015. The holders of the New Convertible Notes shall have the right to convert the whole of any part of the principal amount of the New Convertible Notes into ordinary shares of the Company at an initial conversion price of HK$0.065 per conversion share, subject to anti-dilutive adjustment, at any time between the date of issue of New Convertible Notes and 31 December 2015.

The New Convertible Notes contain two components, liability and embedded derivatives. The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The embedded derivatives component is classified as non-current liabilities carried at fair value. The effective interest rate of the liability component for New Convertible Notes is 16.40% per annum.

The conversion price of New Convertible Notes was adjusted to HK$0.13 on 20 May 2013 and HK$0.12 on 30 May 2013 upon completion of the share consolidation and rights issue as detailed in note 15.

The fair value of the New Convertible Notes as a whole on initial recognition was estimated to be approximately HK$695,000,000 using the Binominal option pricing model. The inputs into the model were as follows:

Share price	HK$0.08
Conversion price	HK$0.065
Risk-free rate	0.213%
Expected dividend yield	Nil
Annualised volatility	68.77%

During the six month period ended 30 June 2013, New Convertible Notes with principal amount of HK$18,000,000 were redeemed.

18. CONVERTIBLE NOTES – UNSECURED *(Continued)*

The movements of the embedded derivatives portion (at fair value) and liability portion (at amortised cost) of the Convertible Notes I and New Convertible Notes are as follows:

Convertible Notes I

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount (with principal amount of HK$770,000,000) as at 1 January 2012	121	751,378	751,499
Imputed interest charged to condensed consolidated income statement	–	9,177	9,177
Decrease in fair value credited to condensed consolidated income statement	(121)	–	(121)
Redemption	–	(73,583)	(73,583)
Carrying amount (with principal amount of HK$695,000,000) as at 31 December 2012 and 1 January 2013	–	686,972	686,972
Imputed interest charged to condensed consolidated income statement	–	678	678
Carrying amount immediately before restructuring	–	687,650	687,650
Fair value at the date of restructuring	–	(695,000)	(695,000)
Loss on restructuring upon derecognition	–	7,350	7,350
At 30 June 2013	–	–	–

New Convertible Notes

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Issue of convertible notes	217,398	477,602	695,000
Imputed interest charged to condensed consolidated income statement	–	31,391	31,391
Decrease in fair value credited to condensed consolidated income statement	(44,732)	–	(44,732)
Redemption	(4,494)	(13,167)	(17,661)
Repayment of interest	–	(147)	(147)
Carrying amount of convertible notes (with principal amount of HK$677,000,000) as at 30 June 2013	168,172	495,679	663,851

At 30 June 2013, New Convertible Notes with principal amount of HK$677,000,000 remained outstanding.

19. DEFERRED TAX LIABILITIES

	HK$'000
At 1 January 2012	799,233
Credited to condensed consolidated income statement	(55,036)
Exchange adjustments	4,711
At 31 December 2012 and 1 January 2013	748,908
Credited to condensed consolidated income statement	(14,622)
Exchange adjustments	15,910
At 30 June 2013	750,196

At 30 June 2013, the recognised deferred tax liabilities represented the tax effect of the fair value adjustments on the intangible assets.

20. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2013 ***HK$'000***	Audited 31 December 2012 *HK$'000*
Trade payables	**6,716**	6,726
Other payables	**34,080**	35,917
Accrued operating expenses	**3,177**	3,300
	43,973	45,943

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

	Unaudited 30 June 2013 ***HK$'000***	Audited 31 December 2012 *HK$'000*
Current-within 1 month	**1,573**	3,044
More than 1 month but within 3 months	**4,818**	3,251
More than 3 month but within 6 months	**274**	254
More than 6 months	**51**	177
	6,716	6,726

21. COMMITMENTS

(i) Capital commitments

Capital commitments in respect of the production sharing contract as at 30 June 2013 not provided for in the financial statements were as follows:

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Production sharing contract:		
– Contracted but not provided for	**27,357**	28,075

(ii) Operating lease commitments

At 30 June 2013, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2013 *HK$'000*	Audited 31 December 2012 *HK$'000*
Within 1 year	**2,525**	3,045
After 1 year but within 5 years	**1,992**	1,387
	4,517	4,432

22. CONTINGENT LIABILITIES

(a) Legal contingencies

The Group is the plaintiff in legal proceedings against a firm of solicitors in Hong Kong, who acts as an escrow agent for the Group, for the return of an aggregate escrow amount of HK$85,000,000 placed with the escrow agent. While the outcome of such proceedings or lawsuits cannot be estimated at present, management believes that any resulting outcome will not have a material adverse effect on the financial position or operating results of the Group.

22. CONTINGENT LIABILITIES *(Continued)*

(b) Environmental contingencies

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

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

		Fair value measurements as at 30 June 2013		
	Fair value at 30 June 2013	**Quoted prices in active market for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Financial assets:				
– Trading securities	**24,611**	**24,611**	**–**	**–**
– Available-for-sale financial assets	**1,000**	**–**	**–**	**1,000**
Financial liabilities:				
– Conversion option embedded in convertible notes	**168,172**	**–**	**–**	**168,172**

23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial assets measured at fair value *(Continued)*

(i) Fair value hierarchy *(Continued)*

	Fair value at 31 December 2012	Fair value measurements as at 31 December 2012		
		Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Financial assets:				
– Trading securities	27,700	27,700	–	–
– Available-for-sale financial assets	1,000	–	–	1,000
Financial liabilities:				
– Conversion option embedded in convertible notes	–	–	–	–

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value movements

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	Unaudited 30 June 2013	Audited 31 December 2012
	HK$'000	*HK$'000*
Conversion option embedded in convertible notes		
At 1 January	**–**	121
Issue of convertible notes	**217,398**	–
Redemption	**(4,494)**	–
Change in fair value recognised in profit or loss during the period	**(44,732)**	(121)
At 30 June/31 December	**168,172**	–

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 30 June 2013.

24. EVENT AFTER THE REPORTING PERIOD END

Subsequent to 30 June 2013 and on 29 August 2013, a supplemental agreement was made between China United Coalbed Methane Corporation Limited ("China United") and Canada Can-Elite Energy Limited ("Can-Elite"), an indirect wholly-owned subsidiary of the Company, pursuant to which, the exploration period for the specified contract area under the production sharing contract (Note 11) has been extended for two more years to 31 March 2015 during which Can-Elite shall expend at least RMB15,000,000 per year for exploration.