New Smart Group

NEW SMART ENERGY GROUP LIMITED
駿新能源集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock code: 91)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the "Board" or "Directors") of New Smart Energy Group Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Note	**2009** **HK$'000**	2008 HK$'000 (restated)
Continuing operations			
Turnover	2	**45,576**	49,323
Cost of sales		**(39,452)**	(42,265)
Gross profit		**6,124**	7,058
Other income		**381**	403
Amortisation of production sharing contract	8	**(124,674)**	(10,283)
Fair value change of convertible bonds' embedded derivatives	13	**(304,332)**	(21,983)
Discount on acquisition of subsidiaries	17	**–**	545,470
Administrative expenses		**(47,523)**	(42,426)
Gain on disposal of subsidiaries	18	**3,092**	–
Finance income		**–**	566
Finance costs	5(a)	**(73,175)**	(7,296)
(Loss)/profit before taxation	5	**(540,107)**	471,509
Income tax	6(a)	**31,169**	2,571
(Loss)/profit for the year from continuing operations		**(508,938)**	474,080

CONSOLIDATED INCOME STATEMENT (CONTINUED)
For the year ended 31 December 2009

	Note	2009	2008
		HK$'000	*HK$'000*
			(restated)
Discontinued operation			
Loss for the year from discontinued operation, net	7(a)	**(71,757)**	(163,641)
(Loss)/profit for the year		**(580,695)**	310,439
Attributable to owners of the Company		**(580,695)**	310,439
(Loss)/earnings per share (expressed in HK cents)	4		
From continuing and discontinued operations			
Basic and diluted		**(13.19)**	14.67
From continuing operations			
Basic and diluted		**(11.56)**	22.41
From discontinued operation			
Basic and diluted		**(1.63)**	(7.74)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Note	**2009** ***HK$'000***	2008 *HK$'000*
(Loss)/profit for the year		**(580,695)**	310,439
Other comprehensive income			
Exchange differences on translation of foreign subsidiaries		**17,709**	8,169
Total comprehensive (loss)/income for the year		**(562,986)**	318,608
Attributable to owners of the Company		**(562,986)**	318,608

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	**2009**	2008
	Note	***HK$'000***	*HK$'000*
Non-current assets			
Property, plant and equipment		**22,630**	180,019
Prepaid lease payments		**–**	2,322
Other intangible assets	8	**3,618,284**	3,726,902
Interest in an associate, net		**–**	–
Available-for-sale financial assets		**2,641**	2,771
		3,643,555	3,912,014
Current assets			
Inventories		**–**	2,898
Prepaid lease payments		**–**	202
Trade and other receivables	9	**15,242**	16,882
Amounts due from related parties		**–**	12,417
Cash and bank balances		**39,126**	38,857
		54,368	71,256
Assets of a discontinued operation and disposal group classified as held for sale	7(c)	**97,117**	–
		151,485	71,256
Total assets		**3,795,040**	3,983,270
Total equity and liabilities		**3,795,040**	3,983,270
Net current liabilities		**(4,207)**	(25,819)
Total assets less current liabilities		**3,639,348**	3,886,195
Net assets		**1,174,642**	738,228
Capital and reserves			
Share capital	10	**66,163**	737,609
Reserves		**1,108,479**	619
Total equity		**1,174,642**	738,228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2009

	Note	**2009** *HK$'000*	2008 *HK$'000*
Non-current liabilities			
Bank loans		**–**	5,653
Other borrowings, unsecured		**–**	21,725
Finance lease obligations		**–**	771
Promissory note, unsecured	12	**142,620**	160,154
Convertible bonds – liability portion, unsecured	13	**1,190,990**	1,877,351
Convertible bonds – embedded derivatives, unsecured	13	**226,525**	146,953
Deferred tax liabilities	14	**904,571**	935,360
		2,464,706	3,147,967
Current liabilities			
Bank loans		**–**	20,351
Other borrowings, unsecured		**20,618**	23,799
Finance lease obligations		**–**	187
Promissory note, unsecured	12	**60,241**	–
Trade and other payables	11	**29,092**	49,847
Amounts due to related parties		**–**	1,779
Current taxation	6(c)	**–**	1,112
		109,951	97,075
Liabilities of a discontinued operation and disposal group classified as held for sale	7(c)	**45,741**	–
		155,692	97,075
Total liabilities		**2,620,398**	3,245,042

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Note	Share capital HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008		475,109	266,253	(416,242)	325,120
Issue of new shares, net of expenses	10(c)	62,500	–	–	62,500
Acquisition of subsidiaries	10(d)	200,000	–	(168,000)	32,000
Share options forfeited		–	(29,477)	29,477	–
Transfer to statutory reserves		–	518	(518)	–
Profit for the year		–	–	310,439	310,439
Exchange differences on transaction of subsidiaries outside Hong Kong		–	8,169	–	8,169
Total comprehensive income for the year		–	8,169	310,439	318,608
At 31 December 2008 and 1 January 2009		737,609	245,463	(244,844)	738,228
Capital reduction	10(b)	(996,104)	622,835	373,269	–
Issue of new shares					
– upon conversion of convertible bonds	10(e)	317,903	613,944	–	931,847
– upon placing of shares	10(f)	6,700	60,578	–	67,278
– upon exercise of bonus warrants	10(g)	55	220	–	275
Share options forfeited		–	(1,771)	1,771	–
Transfer to statutory reserve		–	1,692	(1,692)	–
Loss for the year		–	–	(580,695)	(580,695)
Exchange differences on transaction of subsidiaries outside Hong Kong		–	17,709	–	17,709
Total comprehensive loss for the year		–	17,709	(580,695)	(562,986)
At 31 December 2009		66,163	1,560,670	(452,191)	1,174,642

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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 consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries and the Group's interest in an associate.

The financial statements have been prepared under the historical cost convention except for the embedded derivatives portion of convertible bonds which are stated at fair value. Non-current assets and disposal group held for sale are stated at lower of carrying amount and fair value less costs to sell.

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

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

In preparing the financial statements, the directors of the Company have carefully considered the future liquidity and commitments of the Group as at 31 December 2009. The directors of the Company are of the opinion that the Group will be able to finance its future working capital and financing requirements after the considerations of:

(i) In January 2010, the Company raised net proceeds of HK$76 million by way of issue of 1,300 million new shares at the price of HK$0.061 each, of which HK$67,583,000 has been subsequently applied to redeem the zero coupon promissory note with a principal value of HK$67,583,000 and a carrying value at amortised cost of HK$60,241,000 as at 31 December 2009;

(ii) In April 2010, the Company has entered into a supplemental agreement with the promissory note holder who has agreed to extend the original maturity of zero coupon promissory note with a principal value of HK$160,000,000 and a carrying value at amortised cost of HK$142,620,000 as at 31 December 2009 from 26 May 2010 to 26 May 2011;

(iii) New Alexander Limited, the holder of the convertible bonds and the promissory note of the Company, has agreed to provide continual financial support as is necessary to enable the Group to meet its liabilities as they fall due; and

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

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

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of these new and revised HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting years except for the impact as described as below

HKAS 1 (Revised 2007) Presentation of Financial Statements

As a result of the adoption of HKAS 1 (Revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. The change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 8 Operating Segments

HKFRS 8, which has replaced HKAS 14 "Segment Reporting", specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocation resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided by the Group's most senior executive management, and has not resulted in additional reportable segments being identified and presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2009:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate

[3] Effective for annual periods beginning on or after 1 January 2010

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 July 2010

[7] Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

2. TURNOVER

	2009	2008
	HK$'000	*HK$'000*
Continuing operations:		
Sale of electronic components	**43,207**	49,034
Sale of coalbed methane products	**2,369**	289
	45,576	49,323

The turnover for natural gas classified as a discontinued operation and disposal group held for sale was disclosed in note 7 below.

3. SEGMENT INFORMATION

The Group manages its business by divisions, which are mainly organised by business lines. On first-time adoption of HKFRS 8, Operating Segments and in a manner consistent with the way in which information is reported internally to the board of directors (as chief operating decision maker) 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.

Continuing operations:

- Sale of electronic components
- Exploration and exploitation of coalbed methane ("CBM")

Discontinued operation (note 7):

- Sale of natural gas

Information regarding the above segments is reported below. Amounts reported for the prior year have been re-stated to conform to the requirements of HKFRS 8.

For those items of revenue, income, expenses, assets and liabilities that are incurred at corporate level and are not allocated into the above operating segments, they are presented under the column of "Unallocated" in the following tables.

Operating segments

Year ended 31 December 2009

	Continuing operations				Discontinued Operation *(note 7)*	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Nature gas *HK$'000*	Total *HK$'000*
Segment revenue	43,207	2,369	–	45,576	100,506	146,082
Segment results	(2,120)	(3,977)	–	(6,097)	17,966	11,869
Other income	–	–	381	381	6,725	7,106
Unallocated corporate expenses	–	–	(35,302)	(35,302)	–	(35,302)
Amortisation of production sharing contract	–	(124,674)	–	(124,674)	–	(124,674)
Fair value change of convertible bonds' embedded derivatives	–	(304,332)	–	(304,332)	–	(304,332)
Gain on disposal of subsidiaries	–	–	3,092	3,092	–	3,092
Impairment loss on property, plant and equipment	–	–	–	–	(87,006)	(87,006)
Impairment loss on right to use gas pipelines	–	–	–	–	(5,646)	(5,646)
Finance income	–	–	–	–	657	657
Finance cost	–	(73,016)	(159)	(73,175)	(2,735)	(75,910)
Loss before taxation	(2,120)	(505,999)	(31,988)	(540,107)	(70,039)	(610,146)
Segment assets and liabilities						
Segment assets	7,819	3,647,210	–	3,655,029	97,117	3,752,146
Unallocated corporate assets	–	–	42,894	42,894	–	42,894
Total assets	7,819	3,647,210	42,894	3,697,923	97,117	3,795,040
Segment liabilities	16,650	2,554,539	–	2,571,189	45,741	2,616,930
Unallocated corporate liabilities	–	–	3,468	3,468	–	3,468
Total liabilities	16,650	2,554,539	3,468	2,574,657	45,741	2,620,398
Other information for amounts included in the measures of segment results or segment assets:						
Depreciation	74	4,202	598	4,874	9,288	14,162
Amortisation of right to use gas pipelines	–	–	–	–	566	566
Impairment on trade receivables	130	–	–	130	–	130
Write-down of inventories	62	–	–	62	–	62
Loss on disposal of property, plant and equipment	127	–	–	127	4,937	5,064
Additions to property, plant and equipment	–	3,429	2,092	5,521	21,436	26,957

Year ended 31 December 2008

	Continuing operations				Discontinued Operation *(note 7)*	
	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Nature gas *HK$'000*	Total *HK$'000*
Segment revenue	49,034	289	–	49,323	90,117	139,440
Segment results	(1,071)	(703)	–	(1,774)	6,777	5,003
Other income	–	–	–	–	–	–
Unallocated corporate expenses	–	–	(33,191)	(33,191)	–	(33,191)
Impairment loss of goodwill	–	–	–	–	(167,279)	(167,279)
Amortisation of production sharing contract	–	(10,283)	–	(10,283)	–	(10,283)
Fair value change of convertible bonds' embedded derivatives	–	(21,983)	–	(21,983)	–	(21,983)
Discount on acquisition of subsidiaries	–	545,470	–	545,470	–	545,470
Finance income	–	–	566	566	178	744
Finance costs	–	(7,019)	(277)	(7,296)	(2,526)	(9,822)
(Loss)/profit before taxation	(1,071)	505,482	(32,902)	471,509	(162,850)	308,659
Assets and liabilities						
Segment assets	2,627	3,743,867	–	3,746,494	185,624	3,932,118
Unallocated corporate assets	–	–	51,152	51,152	–	51,152
Total assets	2,627	3,743,867	51,152	3,797,646	185,624	3,983,270
Segment liabilities	11,873	3,198,404	–	3,210,277	27,507	3,237,784
Unallocated corporate liabilities	–	–	7,258	7,258	–	7,258
Total liabilities	11,873	3,198,404	7,258	3,217,535	27,507	3,245,042
Other information for amounts included in the measures of segment results or segment assets:						
Depreciation	74	207	1,258	1,539	8,047	9,586
Amortisation of right to use gas pipelines	–	–	–	–	560	560
Impairment on trade receivables	35	–	–	35	–	35
Write-down of inventories	3	–	–	3	–	3
Loss on disposal of property, plant and equipment	760	–	–	760	–	760
Additions to property, plant and equipment	–	23,136	1,845	24,981	22,431	47,412

Geographical information

	Continuing operations		
	Hong Kong	**PRC**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
2009			
Revenue	**43,207**	**2,369**	**45,576**
Non-current assets (other than available for sale financial assets)	**155**	**3,640,759**	**3,640,914**
2008			
Revenue	49,034	289	49,323
Non-current assets (other than available for sale financial assets)	2,408	3,906,835	3,909,243

The discontinued operation (note 7) was primarily derived from external customers based in the PRC and all assets of this discontinued operation were located in the PRC. No geographical information for the discontinued operation is presented in accordance with HKFRS 8 "Operating Segments".

Information about major customers

There was not a single customer with whom transactions exceeded 10% of the Group's aggregated revenue for continuing and discontinued opeations for both years.

4. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	2009	2008
	HK$	*HK$*
(Loss)/profit used in the calculation of total basic (loss)/earnings per share from continuing and discontinued operation	**(580,695)**	310,439
(Loss)/profit for the year from discontinued operation used in the calculation of basic (loss)/earnings per share from discontinued operation	**(71,757)**	(163,641)
(Loss)/profit used in the calculation of basic (loss)/earnings per share from continuing operations	**(508,938)**	474,080

Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share during the year:	**2009**	2008
Issued ordinary shares at 1 January	**2,950,434,391**	1,900,434,391
Effect of conversion of convertible bonds	**1,246,423,255**	–
Effect of exercise of bonus warrants	**493,032**	–
Issue of new ordinary shares on placement	**203,753,425**	136,301,370
Issue of new ordinary shares on acquisition	**–**	78,904,110
	4,401,104,103	2,115,639,871

(b) Diluted (loss)/earnings per share

	2009	2008
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share during the year:	**4,401,104,103**	2,115,639,871

The diluted (loss)/earnings per share for the year ended 31 December 2009 and 2008 is same as the basic (loss)/earnings per share as the conversion/exercise price of outstanding convertible bonds and share options and/or bonus warrants during 2009 and 2008, were applicable, was higher than the average market price of the Company's share and accordingly, there was no dilutive effect on the basic (loss)/earnings per share for both years.

5. (LOSS)/PROFIT BEFORE TAXATION

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

		Continuing operations	
		2009	2008
		HK$'000	*HK$'000*
(a)	Finance costs		
	Interest expenses on following borrowings wholly repayable within five years:		
	Promissory note *(note 12)*	**52,290**	4,697
	Convertible bonds *(note 13)*	**20,726**	2,322
	Bank loans and overdrafts	**81**	78
	Finance lease obligations	**78**	16
	Other borrowings	**–**	183
		73,175	7,296
(b)	Staff costs (including directors' emoluments)		
	Salaries, wages and other benefits	**21,235**	21,122
	Contributions to defined contribution retirement plans	**268**	393
		21,503	21,515
(c)	Other items:		
	Depreciation		
	– Owned assets	**4,874**	1,632
	– Leased assets	**–**	55
	Cost of inventories sold	**38,341**	42,265
	Operating lease rental expense for land and buildings	**4,338**	4,552
	Loss on disposal of property, plant and equipment	**127**	760
	Impairment on trade receivables	**130**	35
	Write-down of inventories	**62**	3
	Auditor's remuneration		
	– Audit services	**950**	1,200
	– Non-audit services	**125**	450
	Legal and professional fees	**3,814**	3,002

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**–**	–
PRC enterprise income tax	**–**	–
Deferred taxation *(note 14)*		
PRC	**31,169**	2,571
Taxation for the continuing operations	**31,169**	2,571

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

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
(Loss)/profit before taxation from continuing operations	**(540,107)**	471,509
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the countries concerned	**(100,226)**	74,609
Income not subject to taxation	**(1,540)**	(89,930)
Expenses not deductible for taxation purposes	**101,444**	15,144
Deferred tax recognised	**(31,169)**	(2,571)
Tax effect of tax losses not recognised	**322**	177
Taxation for continuing operations	**(31,169)**	(2,571)

(c) Current taxation in the consolidated statement of financial position represented:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Provision for PRC enterprise income tax	**–**	1,112

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

The Company's wholly-owned subsidiary, Can-Elite, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 30%.

Pursuant to the tax treaty agreement between the Government of the PRC and the Government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deduced from any Canadian tax payable in respect of such profits, income or gains.

The subsidiaries in the PRC are subject to an income tax rate of 15%, being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in the PRC are exempted from enterprise income tax for two years commencing from their first profit-making year of operation in 2007 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises.

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and PRC for avoidance of double taxation and prevention of tax evasion, dividends declared from PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax from 1 January 2008 and onwards.

7. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE – 2009

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

In early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Company has taken a series of urgent measures, including but not limited to reporting the case to the Ministry of Public Security in Chongqing, the PRC, with a view to securing the Company's legitimate interests in the Chongqing Natural Gas Companies. Immediately following this instance in early February 2010, temporary supervisory committees for the Chongqing Natural Gas Companies were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, the PRC ("Supervisory Committees") in order to, among other things, to supervise the operation of the Chongqing Natural Gas Companies and to secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies are subject to the Supervisory Committees' approval, which include the management of funds, expenses, personnel changes and purchase and management of materials. The Supervisory Committees are also empowered to investigate any other material issues in connection with the Chongqing Natural Gas Companies.

The directors of the Company considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies.

The directors of the Company have prepared the following financial information concerning the Chongqing Natural Gas Companies classified as a discontinued operation and disposal group held for sale in accordance with HKFRS 5, based on the audited PRC statutory financial statements of each of the Chongqing Natural Gas Companies for the year ended 31 December 2009, prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC, for which 重慶康華會計師事務所有限責任公司, the certified public accountants registered in the PRC, issued an unqualified audit opinion in January 2010.

(a) The results of the discontinued operation and disposal group classified as held for sale are set out below:

	2009 *HK$'000*	2008 *HK$'000*
Turnover	**100,506**	90,117
Cost of natural gas sold	**(57,814)**	(58,881)
Gross profit	**42,692**	31,236
Interest income	**657**	178
Other income	**6,725**	701
Selling and distribution expenses	**(2,460)**	(11,019)
Administrative expenses	**(22,266)**	(14,141)
Impairment loss on property, plant and equipment (*note (c)* below)	**(87,006)**	–
Impairment loss on right to use gas pipelines	**(5,646)**	–
Impairment loss on goodwill (*note (g)* below)	**–**	(167,279)
Finance costs	**(2,735)**	(2,526)
Loss before taxation	**(70,039)**	(162,850)
Income tax	**(1,718)**	(791)
Loss for the year	**(71,757)**	(163,641)

The loss before taxation of the discontinued operation and disposal group classified as held for sale is stated after charging:

	2009 *HK$'000*	2008 *HK$'000*
Depreciation	**9,288**	8,047
Amortization of right to use gas pipelines	**566**	560
Employee benefit expenses		
Salaries, wages and other benefits	**8,004**	8,125
Contributions to defined contribution retirement plans	**1,475**	1,335

(b) The net cash flows of the discontinued operation and disposal group classified as held for sale for the year ended 31 December 2009 and 2008 are as follows:

	2009 *HK$'000*	2008 *HK$'000*
Net cash inflow from operating activities	**28,020**	12,199
Net cash outflow from investing activities	**(12,452)**	(29,127)
Net cash outflow from financing activities	**(8,937)**	(11,652)
Net cash inflow/(outflow) incurred by the discontinued operation	**6,631**	(28,580)

(c) Non-current assets and liabilities of a disposal group classified as held for sale

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

The Group

	Carrying amount before impairment	Impairment immediately before reclassification as disposal group held for sale	Carrying amount at 31 December 2009
	HK$'000	*HK$'000*	*HK$'000*
Assets of a discontinued operation and a disposal group classified as held for sale			
Property, plant and equipment	153,677	(87,006)	66,671
Prepaid lease payments	2,337	–	2,337
Other intangible assets	5,646	(5,646)	–
Inventories	1,062	–	1,062
Trade and other receivables	17,064	–	17,064
Cash and bank balances	9,983	–	9,983
	189,769	(92,652)	97,117
Liabilities of a discontinued operation and a disposal group classified as held for sale			
Trade and other payables	19,643	–	19,643
Current taxation	3,819	–	3,819
Bank loans *(note (f))*	16,499	–	16,499
Other borrowings	569	–	569
Deferred tax liabilities *(note 14)*	5,211	–	5,211
	45,741	–	45,741
Assets less liabilities	144,028	(92,652)	51,376

The directors of the Company have carefully assessed the expected recoverable value of the disposal group with due considerations of pertaining factors, including but not limited to, its future prospect and profitability attributable to the decreased new gas account connection fees income, expected rising running costs and repair and maintenance costs, the contingencies as disclosed in note (d) below and the offers for the purchase of the entire equity interests of the disposal group at RMB50 million received thus far. In the opinion of the directors of the Company, the above impairment of HK$92,652,000 on the assets was necessary and the net carrying value of the disposal group of HK$51,376,000 (assets less liabilities) was reasonably determined and approximate the fair value of the assets less associated liabilities of the disposal group less cost to sell.

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

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

ii) On 4 March 2010, the Plaintiff (as referred to note (i) above) had instituted another lawsuit against Chongqing Three Gorges and the Two PRC Subsidiaries (the "new lawsuit") in which the Plaintiff alleged Chongqing Three Gorges had been in breach of the exploitation and operating contract entered into between the Plaintiff and Chongqing Three Gorges by (1) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the contract to the Two PRC Subsidiaries; and (2) selling the shareholding interests in the Two PRC subsidiaries to the Company in 2006 without the consent of the Plaintiff. The Plaintiff now seeks an order from the Court to set aside the contract. The Company is still seeking legal advice in respect of the new lawsuit.

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

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

At 31 December 2009, there were no material commitments in each of the Chongqing Natural Gas Companies.

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

The bank loans of HK$16,499,000 were secured by the right to collect revenue on sales of natural gas of the Chongqing Natural Gas Companies.

(g) Goodwill – 2008

	2009	2008
	HK$'000	*HK$'000*
Cost:		
At 1 January	**159,058**	159,058
Exchange adjustments	**8,221**	8,221
Impairment loss recognised	**(167,279)**	(167,279)
At 31 December	**–**	–

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

In 2008, management had appointed an independent valuer, Asset Appraisal Limited with relevant experience and qualification, to perform a professional valuation of the CGU. The recoverable amount of goodwill was determined based on value-in-use calculations. These calculations used pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and extrapolated beyond the five-year using an estimated growth rate. The growth rate did not exceed the long-term average growth rate for the energy business.

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

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

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

8. OTHER INTANGIBLE ASSETS

The Group

	Production sharing contract ("PSC") *(note (a) and (b))* *HK$'000*	**Right to use gas pipelines** *(note (c))* *HK$'000*	**Total** *HK$'000*
Cost			
At 1 January 2008	–	7,104	7,104
Acquisition of subsidiaries *(note 17)*	3,741,200	–	3,741,200
Exchange adjustments	(10,110)	426	(9,684)
At 31st December 2008 and 1 January 2009	3,731,090	7,530	3,738,620
Assets of a disposal group classified as held for sale	–	(7,576)	(7,576)
Exchange adjustments	22,749	46	22,795
At 31 December 2009	3,753,839	–	3,753,839
Accumulated amortisation			
At 1 January 2008	–	744	744
Exchange adjustments	81	50	131
Charge for the year	10,283	560	10,843
At 31 December 2008 and 1 January 2009	10,364	1,354	11,718
Charge for the year	124,674	566	125,240
Assets of a disposal group classified as held for sale	–	(1,930)	(1,930)
Exchange adjustments	517	10	527
At 31 December 2009	135,555	–	135,555
Net book value:			
At 31 December 2009	3,618,284	–	3,618,284
At 31 December 2008	3,720,726	6,176	3,726,902

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

On 21 March 2008, China United and Can-Elite obtained the approval from 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.

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 ("CBM") 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 its modification dated 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, 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 CMB 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$32,360,000) 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.

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

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

The interest on the development cost incurred by Can-Elite and China United for each coalbed methane field within the CBM Contract Area shall be calculated at a fixed annual compound interest rate of 9% per annum.

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

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

		2009	2008
		HK$'000	*HK$'000*
(i)	Results for the year		
	Revenue	**2,369**	289
	Expenses	**(3,507)**	(478)
	Amortisation charge of intangible assets (PSC)	**124,674**	(10,283)
	Deferred taxation	**31,169**	2,571
(ii)	Assets and liabilities		
	Intangible assets (PSC)	**3,618,284**	3,720,726
	CBM related plant and machinery	**22,475**	22,695
	Current liabilities	**(20,618)**	(3,799)
	Non-current liabilities	**–**	(21,725)
	Deferred tax liabilities *(note 14)*	**(904,571)**	(930,216)
(iii)	Capital commitments *(note 15(a))*		
	Contracted but not provided for	**31,425**	20,972
	Authorized but not contracted for	**12,010**	17,626

(b) Impairment test on PSC

Management has appointed an independent valuer, BMI Appraisals Limited with relevant experience and qualification, to perform a professional valuation, using the income approach (i.e. cash flow discounting) on the PSC attributable to the Group as at 31 December 2009. Management of the Group has determined that there is no impairment on the PSC as the recoverable amount of PSC, based on value-in-use calculations, as calculated in the valuation report is in excess of the aggregate carrying amount of PSC. The calculation is based on pre-tax cash flow projections prepared from financial budgets approved by management of the Group covering a 12 years period, a discount rate of 17.78% which is pre-tax and reflect specific risk. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the industry. The cash flow projections are prepared based on the expected gross margins determined based management's expectations for the market development.

Based on the above assessment, as at 31 December 2009, management of the Group determined that there is no impairment of the PSC.

(c) The right to use gas pipelines is amortised on a straight-line basis over the useful life of 12 years, which has been reclassified to a disposal group held for sale and separately disclosed as referred to note 7.

9. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**4,689**	5,849
Provision for impairment	**(298)**	(168)
Trade receivables, net	**4,391**	5,681
Other receivables	**6,177**	6,788
Deposits and prepayments	**4,674**	4,413
	10,851	11,201
Provision for impairment	**–**	–
	10,851	11,201
	15,242	16,882

Trade and other receivables of HK$17,064,000 at 31 December 2009 attributable to a disposal group classified as held for sale were separately reclassified and disclosed in note 7(c).

As of 31 December 2009, trade receivables of HK$298,000 (2008: HK$168,000) were impaired and fully provided for. The individually impaired receivables mainly relate to independent parties for which the recovery is estimated to be remote and unlikely. The other classes within receivables and prepayments do not contain impaired assets.

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

	2009	2008
	HK$'000	*HK$'000*
Current – within 1 month	**4,278**	4,567
More than 1 month but within 3 months	**38**	937
More than 3 months but within 6 months	**48**	17
More than 6 months	**27**	160
	4,391	5,681

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

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**168**	133
Impairment loss recognised	**130**	35
Amount recovered	**–**	–
At 31 December	**298**	168

As at 31 December 2009, the Group's trade receivables of HK$298,000 (2008: HK$ 168,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of HK$130,000 (2008: HK$35,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

Receivables that were past due but not impaired relate a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

10. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares
		HK$'000
Authorised:		
At 1 January 2008 of HK$0.25 each	10,000,000,000	2,500,000
Increase in authorised share capital *(note a)*	10,000,000,000	2,500,000
At 31 December 2008 and 1 January 2009 of HK$0.25 each	20,000,000,000	5,000,000
Capital reduction *(note b)*	–	(4,800,000)
At 31 December 2009 of HK$0.01 each	20,000,000,000	200,000
Issued and fully paid:		
At 1 January 2008	1,900,434,391	475,109
Issue of new shares for cash *(note c)*	250,000,000	62,500
Acquisition of subsidiaries *(note d)*	800,000,000	200,000
At 31 December 2008 and 1 January 2009	2,950,434,391	737,609
Capital reduction *(note b)*	–	(996,104)
Issue of new shares:		
– upon conversion of convertible bonds *(note e)*	2,990,332,000	317,903
– upon placing of shares *(note f)*	670,000,000	6,700
– upon exercise of bonus warrants *(note g)*	5,488,413	55
At 31 December 2009	6,616,254,804	66,163

(a) Increased in authorised share capital

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

(b) Capital Reduction

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 6 April 2009, the Hong Kong Court of First Instance approved that the nominal value of every issued and unissued share of the Company was reduced from HK$0.25 to HK$0.01 each by canceling capital paid up or credited as paid up to the extent of HK$0.24 upon each of the shares of the Company. The capital reduction was completed and became effective on 21 July 2009. The credit arising from the capital reduction was HK$996,104,000 which was credited to the accumulated losses of the Company (HK$373,269,000) and special capital reserve (HK$622,835,000) respectively.

(c) Issue of new shares for cash

On 16 June 2008, pursuant to a subscription agreement dated 6 June 2008, the Company issued a total of 250,000,000 ordinary shares of HK$0.25 each at a price of HK$0.25 per share.

(d) Issue of new shares for acquisition of subsidiary

On 26 November 2008, the Company issued 800,000,000 ordinary shares of HK$0.25 at an issued price of HK$0.25 each as settlement for part of the consideration for the acquisition of the entire issued shares of Merit First Investments Limited as referred to note 17 below. The published closing price of the shares of the Company on 26 November 2008 was HK$0.04 per share.

(e) Issue of new shares upon conversion of convertible bonds

During the year, convertible bonds with principal amount of HK$29,903,000 were converted into 2,990,332,000 shares of the Company of HK$0.01 each at a conversion price of HK$0.25 per share.

Conversion dates	**Number of new ordinary shares issued**
4 June 2009	400,000,000
18 June 2009	400,000,000
23 June 2009	200,000,000
30 June 2009	200,000,000
10 August 2009	400,000,000
11 August 2009	400,000,000
19 August 2009	390,322,000
20 August 2009	160,000,000
23 October 2009	440,000,000
	2,990,332,000

(f) Issue of new shares upon placing of shares

On 11 September 2009, the Company issued 670,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.103 per share. Net proceeds from such issue amounted to HK$67,278,000 (after offsetting issuing expenses of HK$1,732,000) out of which HK$6,700,000 and HK$60,578,000 were recorded in share capital and share premium, respectively.

(g) **Issue of new shares upon exercise of bonus warrants**

On 13 November 2009, the Company issued 1,322,153,278 bonus warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders. The holders of bonus warrants are entitled at any time during the period from 13 November 2009 to 12 November 2010 for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). For the year ended 31 December 2009, 5,488,413 new ordinary shares of HK$0.01 each were issued upon the exercise of 5,488,413 units of bonus warrants. As at 31 December 2009, there were 1,316,664,865 (2008: Nil) units of bonus warrants remained outstanding.

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

11. TRADE AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**11,825**	12,916
Other payables	**14,925**	31,989
Accrued operating expenses	**2,342**	4,942
	29,092	49,847

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

	2009	2008
	HK$'000	*HK$'000*
Current – within 1 month	**4,147**	7,831
More than 1 month but within 3 months	**6,009**	2,891
More than 3 months but within 3 months	**1,267**	647
More than 6 months	**402**	1,547
	11,825	12,916

12. PROMISSORY NOTE

On 26 November 2008, the Company issued HK$240,000,000 unsecured redeemable promissory note as settlement for part of the consideration for with the acquisition of the 100% equity interest in Merit First Investments Limited (see note (36)). The promissory note is repayable in one lump sum on maturity of 1.5 years i.e. 26 May 2010. The promissory note bears zero coupon rate. The Company has the right to redeem promissory note prior to the maturity date by serving a written notice to the note-holder which at 31 December 2009 is New Alexander Limited (2008: Proud City Investments Limited"). The fair value of promissory note at the issue date was approximately HK$155,457,000, based on the independent valuation performed by Asset Appraisal Limited, a firm of independent professional valuers. The effective interest rate of the promissory note was determined to be 33% per annum at the issue date on 26 November 2008, with reference to the similar instruments in the market. The promissory note is carried at amortised cost using the effective interest rate of 33% per annum, until extinguishment or redemption. On 18 August 2009, a portion of the promissory note with a principal amount of HK$12,417,000 and carrying amount at amortised cost of HK$9,583,000 was used by the note holder to off-set the same amount due to the Company.

Based on a supplemental agreement date 21 April 2010, the promissory note with principal value of HK$160,000,000 has been restructured with an extended maturity from 26 May 2010 to 26 May 2011. The promissory note with principal value of HK$67,583,000 and carrying value at amortised cost of HK$60,241,000 at 31 December 2009 was subsequently redeemed by the Company on 20 January 2010 and 27 April 2010 which has been classified under current liabilities in the statement of financial position of the Group and Company at 31 December 2009.

The movements of the promissory note carried at amortised costs are set out below:

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**160,154**	–
Promissory note on issue date	**–**	155,457
Amortise interest charged to the income statement	**52,290**	4,697
Early redemption	**(9,583)**	–
At 31 December	**202,861**	160,154
Amounts classified under following categories in statement of financial position:		
Non-current liabilities	**142,620**	160,154
Current liabilities	**60,241**	–
	202,861	160,154

13. CONVERTIBLE BONDS

On 26 November 2008, the Company issued convertible bonds with an aggregated principle amount of HK$2,000,000,000 with a term of five years as settlement of part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited as referred to note 17 below. The bonds are unsecured and carry zero coupon interest rate. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 per conversion share at any time during the period commencing from the date of issue of convertible bonds.

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

At the initial recognition on 26 November 2008 which was the issue date of the convertible bonds, the fair value of the embedded derivatives portion of the convertible bonds were determined by an independent professional valuer, Asset Appraisal Limited, using the an option pricing model; the liability component of the convertible bond 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 each of the balance sheet date, the fair value of the embedded derivatives portion of the convertible bonds were revalued by an independent professional valuer, BMI Appraisals Limited (2008: Asset Appraisal Limited), using an option pricing model, and the change in the fair value of the embedded derivatives of HK$304,332,000 (2008: HK$21,983,000) was charged to the consolidated income statement for the year. Implicit interest is accrued on the liability component of the convertible bonds using the effective interest method by applying the effective interest rate of 1.29% per annum.

The movements of the convertible bonds are as follows:

	Embedded derivatives portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Principal value of convertible bonds on the date of issue	124,970	1,875,030	2,000,000
Interest amortised charged to consolidated income statement	–	2,321	2,321
Increase in fair value charged to consolidated income statement	21,983	–	21,983
Carrying amount of convertible bonds as at 31 December 2008 and 1 January 2009	146,953	1,877,351	2,024,304
Interest amortised charged to consolidated income statement	–	20,726	20,726
Increase in fair value charged to consolidated income statement	304,332	–	304,332
Conversion into new shares *(note 10 (e))*	(224,760)	(707,087)	(931,847)
Carrying amount of convertible bonds as at 31 December 2009	226,525	1,190,990	1,417,515

14. DEFERRED TAX LIABILITIES

	2009	2008
	HK$'000	*HK$'000*
At 1 January	**935,360**	5,506
Acquisition of subsidiaries *(note 17)*	**–**	935,300
Credited to consolidated income statement	**(31,169)**	(3,223)
Deferred liabilities of a disposal group classified as held for sale *(note 7(c))*	**(4,559)**	–
Exchange adjustments	**4,939**	(2,223)
At 31 December	**904,571**	935,360

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

	Temporary differences	Fair value adjustment on a business combination	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2008	4,921	585	5,506
Effect of fair value gain on the PSC upon acquisition of subsidiaries *(note 17)*	–	935,300	935,300
Credit to consolidated income statement *(note 6)*	(652)	(2,571)	(3,223)
Exchange adjustments	290	(2,513)	(2,223)
At 31 December 2008 and 1 January 2009	4,559	930,801	935,360
Credit to consolidated income statement *(note 6)*	–	(31,169)	(31,169)
Classified as liabilities of a disposal held for sale *(note 7(c))*	(4,586)	(625)	(5,211)
Exchange adjustments	27	5,564	5,591
At 31 December 2009	–	904,571	904,571

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

Deferred taxation assets of the Group amounting to HK$21,960,000 (2008: HK$16,086,000), 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.

15. COMMITMENTS

(a) Capital commitments

Capital commitments in respect of the coalbed exploration and exploitation under the production sharing contract as at 31 December 2009 not provided for in the financial statements were as follows:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Authorised but not contracted for	**12,010**	17,626
Contracted but not provided for	**31,425**	20,972
	43,435	38,598

There were no material commitments for the discontinued operation and disposal group classified as held for sale at 31 December 2009 (note 7(e) above).

(b) Operating lease commitments

At 31 December 2009, the total minimum lease payments of the Group in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Continuing operations	
	2009	2008
	HK$'000	*HK$'000*
Within 1 year	**1,388**	6,493
After I year but within 5 years	**363**	3,865
After 5 years	**–**	–
	1,751	10,358

There were no material operating lease commitments for discontinued operation and disposal group classified as held for sale (note 4 above).

16. CONTINGENT LIABILITIES

(a) There is a dispute between Mr. Tan Chuanrong ("Mr Tan"), the former beneficial owner of the Chongqing Natural Gas Companies, and Marvel Time Holdings Limited ("Marvel Time"), a wholly-owned subsidiary of the Company and immediate holding company of Sanxia Gas. In or about December 2009, Mr. Tan expressed his intention to exercise the first right to purchase (the "First Right to Purchase") the entire issued capital of Sanxia Gas at a consideration of RMB50 million (approximately HK$56,876,000) in writing, which is the same as that offered by an independent third party in a conditional sale and purchase agreement entered into between the said third party and Marvel Time on 2 December 2009 but subsequently terminated on 29 December 2009. Mr. Tan's First Right to Purchase was contained, amongst other terms and conditions, in the agreement dated 12 April 2006 (as supplemented by another agreement dated 27 April 2006) (collectively "2006 Original Agreement") relating to the Group's acquisition of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies, from Mr. Tan in 7 August 2006. The First Right to Purchase, which was irrevocable, would be valid for 7 years after the completion of the 2006 Original Agreement. Mr. Tan was a former director of the Company who was retired and ceased to be a director of the Company at its annual general meeting held on 10 June 2009. When Mr. Tan purported to exercise the First Right of Purchase in December 2009, Mr. Tan should be deemed to be a connected party of the Company under Rule 14A of the Listing Rules. Up to the date of this report, the Company and Mr. Tan have not yet reached an agreement on the conditions precedent relating to the sale of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies. On 19 April 2010, Mr. Tan served a writ of summons, together with an indorsement of claim, against the Company and Marvel Time for (i) specific performance of 2006 Original Agreement to effect the sale of the entire interest of Sanxia Gas to Mr. Tan; (ii) damages in lieu of or in addition to specific performance; (iii) interest and costs arising. The directors of the Company have sought legal advice that the Group has a strong case in defending any legal actions to be taken by Mr. Tan to the effect that the sale of Sanxia Gas, if to take place, shall be subject to those conditions precedent in accordance with the requirements of the Listing Rules.

(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 whether they are operating, closed and 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 indeterminable 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.

(c) The contingencies of the disposal group held for sale are disclosed in note 7 (d) above.

17. BUSINESS COMBINATION – 2008

At 26 November 2008, the Group acquired 100% of the issued share capital of Merit First Investments Limited ("Merit First") for a consideration which was satisfied by (i) HK$60,000,000 in cash; (ii) 800,000,000 new shares of HK$0.25 each; (iii) HK$2,000,000,000 convertible bonds and (iv) HK$240,000,000 promissory note of the Company. This acquisition had been accounted for using the purchase method. The amount of discount on acquisition was approximately HK$545,470,000 at the acquisition had been credited to the consolidated income statement for the year ended 31 December 2008 (see below).

Through the acquisition of Merit First, the Group has obtained 100% equity interest in Can-Elite, which is engaged in the exploration and exploitation of CBM in Auhui, the PRC (collectively referred to as the "Merit First Group"). As the acquisition date, the CBM business has been in operation jointly by Can-Elite and China United with 7 wells extracting CBM products supplied to an independent third party customer near the CBM Contract Area.

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

	Acquirees' carrying amount before business combination	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Intangible assets – PSC *(note 8)*	–	3,741,200	3,741,200
Property, plant and equipment	23,136	–	23,136
Debtors and prepayments	276	–	276
Cash and bank balances	46	–	46
Other payables	(29,230)	–	(29,230)
Deferred tax liabilities *(note 14)*	–	(935,300)	(935,300)
	(5,772)	2,805,900	2,800,128
Discount on acquisition of subsidiaries			(545,470)
Total costs of acquisition			2,254,658
Total consideration satisfied by:			
– Cash paid			60,000
– Shares of the Company – at fair value *(note 10(d))*			32,000
– Promissory note – at fair value *(note 12)*			155,457
– Convertible bonds- at fair value *(note 13)*			2,000,000
			2,247,457
– Direct expenses related to the acquisition			7,201
Total costs of acquisition			2,254,658

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

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

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

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

18. DISPOSAL OF SUBSIDIARIES – 2009

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

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

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

The impact of New Smart Property Investment Group's results and cash flows in the current and prior periods were insignificant.

19. EVENTS AFTER THE REPORTING PERIOD

(a) Share placement

On 13 January 2010, the Company completed the share placement of 1,300,000,000 new shares at the placing price of HK$0.061 per share, with net proceeds of approximately of HK$76 million were raised and used for the partial settlement of the promissory note and the general working capital of the Group.

(b) Partial redemption of promissory note

On 20 January and 27 April 2010, promissory note with principal value of HK$60,000,000 and HK$7,583,000 were redeemed respectively from the proceeds of share placement as referred in note (a) above.

(c) On 21 April 2010, the Company entered into a supplemental agreement with the promissory note holder pursuant to which the maturity of the promissory note with a principal value of HK$160,000,000, which was carried at amortised cost of HK$142,620,000 at 31 December 2009 (note 12), has been subsequently extended for an additional 12 months from 26 May 2010 to 26 May 2011.

(d) On 29 April 2010, Can-Elite and China United under the PSC (note 8), as Joint Venture Partners under the PSC in the CBM Area, entered into an agreement with 淮北礦業(集團)有限責任公司, an independent third party. At 31 December 2009, there was approximately HK$29,454,000 (RMB25,893,000) payable by the Joint Venture of Can-Elite and China United under the PSC to 淮北礦業(集團)有限責任公司, of which Can-Elite shares approximately HK$20,618,000 (RMB 18,125,000) under the PSC, for financing of those relevant plant and equipment and related facilities installed for existing seven CBM gas wells inside the CBM Area. Pursuant to this agreement,

(i) 淮北礦業(集團)有限責任公司 has been appointed to manage the operations of seven CBM gas wells at the annual management fee of RMB1,400,000 which covers all the running costs and maintenance costs of the designated seven gas wells inside the CBM Area;

(ii) 淮北礦業(集團)有限責任公司 has agreed not to charge any interest bearing on the debt owed by the Joint Venture of Can-Elite and China United with retrospective effect from 1 April 2008 when the PSC became effective and thus, 淮北礦業(集團)有限責任公司has implicitly agreed to waive all accrued interests of approximately HK$6,834,000 (RMB6,008,000) due by the Joint Venture of Can-elite and China United at 31 December 2008, of which Can-Elite shares approximately HK$4,784,000 (RMB4,206,000) based on the PSC (note 30);

(iii) Joint Venture of Can-Elite and China United has agreed to sell the CBM products generated from the designated seven CBM gas wells to 淮北礦業(集團)有限責任公司 at a price with a discount of 20% and the revenue receivable from 淮北礦業(集團)有限責任公司 shall be applied to deduct against the debt balance owing to 淮北礦業(集團)有限責任公司 during the period until this debt balance is reduced to zero.

The waived accrued interests of HK$4,784,000, which Can-Elite shares under the PSC, has been deferred and included in "other payables" so as to be amortised and matched with the future discount on sales of the CBM products to be generated from the designated CBM gas wells.

20. COMPARATIVE FIGURES

As a result of the application of HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and HKFRS 8 "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

EXTRACT OF REPORT OF THE INDEPENDENT AUDITOR – CCIF CPA LIMITED

BASIS FOR DISCLAIMER OF OPINION

As disclosed in note 12 to the financial statements, the Company had resolved in December 2009 to discontinue the operation of natural gas supply in Chongqing, the Peoples' Republic of China (the "PRC") which are undertaken by Sanxia Gas (BVI) Investment Limited ("Sanxia Gas (BVI)") through its subsidiaries, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies") all established in the PRC. The directors of the Company have reclassified the Chongqing Natural Gas Companies as a disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"), as further detailed in note 12 to the consolidated financial statements. At 31 December 2009, the assets of the Chongqing Natural Gas Companies classified as a disposal group held for sale of HK$97,117,000, after impairment loss of HK$92,652,000 recongised immediately before reclassification as a disposal group held for sale, and liabilities of HK$45,741,000 associated with this disposal group held for sale were included in the consolidated statement of financial position. The directors of the Company considered that the assets less liabilities of the Chongqing Natural Gas Companies classified as a disposal group held for sale have been written down to an estimated recoverable value approximate to the fair value of the disposal group less cost to sell. The net loss for the year from the discontinued operation of the Chongqing Natural Gas Companies amounted to HK$71,757,000 and was included in the consolidated income statement for the year.

The Company reported that in early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Company has taken a series of urgent measures, including but not limited to reporting the case to the Ministry of Public Security in Chongqing, the PRC, with a view to securing the Company's legitimate interests in the Chongqing Natural Gas Companies. In early February 2010, temporary supervisory committees for the Chongqing Natural Gas Companies were established by the local township governments in Yunyang, Fengjie and Wushan, in Chongqing, the PRC ("Supervisory Committees") in order to, among other things, supervise the operation of the Chongqing Natural Gas Companies and secure the stable provision of natural gas to the domestic residents. Various aspects of the operation of the Chongqing Natural Gas Companies are subject to the Supervisory Committees' approval, which include the management of funds, expenses, personnel changes and purchase and management of materials. The Supervisory Committees are also empowered to investigate any other material issues in connection with the Chongqing Natural Gas Companies. The directors of the Company considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies.

The directors of the Company have prepared those financial information concerning the Chongqing Natural Gas Companies classified as a discontinued operation and disposal group held for sale in accordance with HKFRS 5, as further disclosed in note 12 to the consolidated financial statements, based on the PRC statutory financial statements of each of the Chongqing Natural Gas Companies for the year ended 31 December 2009, prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC, which were audited by the certified public accountants registered in the PRC. However, due to the current circumstances relating to the Chongqing Natural Gas Companies mentioned in the preceding paragraph, the directors of the Company have been unable to provide us with the complete set of the accounting books and records of each of the Chongqing Natural Gas Companies. We have therefore been unable to carry out audit procedures to obtain sufficient reliable audit evidence to satisfy ourselves as to whether the assets and liabilities, contingencies, charges of assets, and commitments of Chongqing Natural Gas Companies classified as a disposal group held for sale as at 31 December 2009 and of their losses and cash flows for the year then ended, as set out in note 12 to the consolidated financial statements, are free from material misstatements.

Any adjustments to those financial information concerning the Chongqing Natural Gas Companies as a discontinued operation and disposal group held for sale, as further detailed in note 12 to the consolidated financial statements, may have significant consequential effects on the net assets of the Group as at 31 December 2009 and the Group's loss and cash flows for the year then ended.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

REPORT ON MATTER UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to the Chongqing Natural Gas Companies, classified as a discontinued operation and a disposal group held for sale, in the PRC:

– we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

– we were unable to determine whether proper books of account had been kept.

BUSINESS PREVIEW

Natural Gas Business

The Company, through its wholly-owned subsidiary, Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") which holds the ownership in the subsidiaries in PRC, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies"), runs the Nature Gas business in Chongqing Province, the principal business activities of which are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengie, and Wushan of Chongqing Province. This Natural Gas business offered the Group the stepping stone to other energy-related businesses in Mainland China.

As disclosed in note 7, on 2 December 2009, the directors of the Company resolved to discontinue the operation of the Chongqing Natural Gas Companies. The Chongqing Natural Gas Companies were therefore, reclassified as a discontinued operation and disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 "Non-current Assets Held for Sale and Discontinued Operations" ("HKFRS 5"). At 31 December 2009, the assets of the disposal group of HK$97,117,000, after impairment loss of HK$92,652,000 recognised immediately before reclassification as a disposal group held for sale, and liabilities of HK$45,741,000 associated with this disposal group were included in the consolidated statement of financial position.

In early February 2010, around 20 trespassers entered the Group's representative office in Chongqing by force and took away the business certificates, seals, official documents and other relevant documents of the Chongqing Natural Gas Companies. The Directors of the Company considered, after having sought legal opinions, that the Group has good legal title to the ownership of each of the Chongqing Natural Gas Companies. Although the Company has adopted certain measures to protect the interest of the Natural Gas business, the unavailability of books and records of Chongqing Natural Gas Companies caused limitation to the auditor to assess such books and record and the auditor could not express opinion in this regard.

Coalbed Methane ("CBM") Business

The Company, 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 Sunan area, Anhui province (the "Contract Area") in the PRC, for a term of 30 years from the date of commencement of the production of coalbed methane from any coalbed methane field proposed and announced by joint management committee comprising representatives from China United and Can-Elite (the "Joint Management Committee"). The profit sharing ratio between China United and Can-Elite is approximately 30:70.

The products of CBM and liquid hydrocarbons will be sold within Anhui Province for industrial use and to residents for household use. This CBM business in Anhui Province allows the Group to share a slice of this lucrative market of the clean energy sector in Mainland China. The exploration of the coalbed methane will take years to reach the normal production capacity of the existing resources. During the year, the progress was still in its early stage and a loss of about HK$506 million was recorded resulting from the excess of cost of operation over the revenue of about HK$4 million, amortization of the PSC of about HK$125 million, change in fair value of convertible bond's embedded derivatives of about HK$304 million and implicit interests on promissory note and convertible bonds of about HK$73 million.

As at the report date, to meet the prior plan worked out by the Joint Management Committee, there are totally 12 wells at our sites, of which 7 wells are under production. With the progress in exploration and further investment in CBM, the returns will be captured in the coming years.

Electronic Components Business

The Company, through its non-wholly-owned subsidiary, Strong Way International Limited, operates the design and distribution of "SONIX" brand integrated circuits for toy manufacturing in Hong Kong and the South East Asian Region. The market environment remained extremely challenging in 2009 after the financial tsunami in late 2008. The Group recorded a drop in revenue of about HK$5.8 million from about HK$49 million in 2008 to about HK$43.2 million in 2009, representing a decline of 12% and a loss of about HK$2.1 million (2008: about HK$1 million).

PROSPECTS

The Group has adopted positive approach to streamline the businesses, especially the Natural Gas business. Although it will have a short term impact, the Board believes that with the development in CBM, the overall profitability will be achieved eventually.

The CBM is the gas which exists between the coalbed. The process of exploitation is environmental friendly. The cost of production, which involves mainly drilling of wells for both exploration and extraction of CBM within the Contract Area, is relatively low. The Chinese Government is supportive to the exploitation and usage of CBM. It has a number of policies to encourage the existing coal enterprises to exploit the resource of CBM. Exploitation of CBM is generally regarded as one of the premier developments in the five provinces of the Western China, which would speed up the economic development in these areas.

The Group has been optimizing its resources in developing the highly potential CBM business and will never hesitate to step out the Nature Gas Business and direct its resources to the CBM business in Anhui Province. In 2010, the Group will further invest and develop its existing CBM business in Anhui Province in a board extent, through its close relationship with China United, and will take an active role to exploit this project including building up the piped network and carrying out marketing research study, with a view to launch its products to commercial operation in the near future.

When the CBM business in Anhui Province expands its commercial operation, the Board envisages that the gas products will bring a steady income as well as a reasonable return on investment to the Group.

FINANCIAL REVIEW

The Group's turnover of continuing operations for the year was HK$45,576,000 (2008: HK$49,323,000 (restated), representing a decrease of 7.60%. Such decrease of turnover was mainly due to the decrease contribution from the sales of electronic components. The revenues generated by the sales of electronic components decreased by 11.88% from HK$49,034,000 in 2008 to HK$43,207,000 in 2009, representing 94.80% of the Group's turnover. The Coalbed Methane ("CBM") exploration and exploitation operating subsidiary ("CBM Operating Subsidiary") contributed HK$2,369,000 (2008: HK$289,000) to the Group in 2009, representing 5.20% of the Group's turnover. The Group's gross profit of continuing operations decreased by 13.23% to HK$6,124,000 from HK$7,058,000 (restated) in 2008.

The Group's loss from continuing operations for the year was HK$508,938,000 (2008: profit of HK$474,080,000 (restated). Substantial part of the Group's loss was mainly due to the accounting treatments of various items, such as the fair value change on convertible bonds' embedded derivatives amounted to HK$304,332,000 (2008: HK$21,983,000), of which representing 59.80% of the Group's loss, implicit interest on promissory note amounted to HK$52,290,000 (2008: HK$4,697,000), and convertible bonds amounted to HK$20,726,000 (2008: HK$2,322,000), amortization of the PSC in respect of CBM amounted to HK$124,674,000 (2008: HK$10,283,000), the deferred tax income amounted to HK$31,169,000 (2008: HK$2,571,000), gain on disposal of subsidiaries amounted to HK$3,092,000 (2008: nil) and discount on acquisition of subsidiaries amounted to nil (2008: HK$545,470,000). The aggregate net result of the abovementioned accounting loss for 2009 is HK$467,761,000 (2008: profit of HK$508,756,000).

For comparison purpose, the loss after tax from continuing operations for 2009 and 2008, if excluding those accounting loss, was HK$41,177,000 and HK$34,676,000 respectively, an increase in loss of 18.75% which was mainly due to the increase of administrative expenses incurred by the CBM Operating Subsidiary which started to operate in late 2008.

The Board was of the opinion that the substantial loss incurred by the accounting loss mentioned above shall not have actual negative impact on the cashflow position of the Group.

The Group recorded a loss attributable to shareholders of approximately HK$580,695,000 (2008: profit of HK$310,439,000), and basic and diluted loss per share from continuing and discontinuing operations was approximately HK$13.19 cents (2008: earning of HK$14.67 cents). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the Group had current assets of HK$151,485,000 (2008: HK$71,256,000) and current liabilities of HK$155,692,000 (2008: HK$97,075,000) and cash and bank balances of HK$39,126,000 (2008: HK$38,857,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 97.30% (2008: 73.4%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 57.69% (2008:75.03%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In 2009, the Group has successfully raised approximately HK$67,278,000 by placement of 670,000,000 new shares at subscription price of HK$0.103 per share for the settlement of part of the outstanding promissory note issued by the Company in 2008, the general working capital and the potential investments to be identified by the Group.

Moreover, a total of 1,322,153,278 bonus warrants were issued by the Company during the year to the shareholders on the basis of one warrant for every five shares held on the 9 November 2009, i.e. the date of the extraordinary general meeting. The holders thereof to subscribe in cash for 1,322,153,278 new shares at an initial exercise price of HK$0.05 per share at any time during the period commencing on 13 November 2009 and expiring on 12 November 2010 (both days inclusive). For the year 2009, the Group has successfully raised approximately HK$275,000 (2008: nil).

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.

Details of the commitments of the Group are set out in note 15.

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 16, the Group had no other contingent liabilities as at 31 December 2009.

LITIGATION

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

According to the report of the Company's PRC lawyer, upon the Plaintiff's application, the Lawsuit had been withdrawn in or about February 2010 and the Plaintiff should pay all court fees in connection with the Lawsuit. It was noted that the Plaintiff had instituted another lawsuit on or about 4 March 2010 (the "**New Lawsuit**"), in which the Plaintiff alleged that Chongqing Three Gorges had been in breach of the exploitation and operation contract entered into between the Plaintiff and Chongqing Three Gorges (the "**Contract**") by (i) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the Contract to the Two PRC Subsidiaries; and (ii) selling the shareholding interests of the Two PRC Subsidiaries to the Company in 2006 without the consent of the Plaintiff.

The Company has instructed its PRC lawyer to defend the New Lawsuit instituted against the Two PRC Subsidiaries. The hearing of the New Lawsuit was originally scheduled on 13 April 2010 due to the illness of the Company's PRC lawyer. The PRC lawyer reported that the hearing subsequently deferred to a date yet to be determined.

The Company has been advised by PRC lawyer that it has good grounds to resist the petition. There should be no financial impart regarding this litigation.

(2) There is a dispute between Mr. Tan Chuanrong ("Mr Tan"), the former beneficial owner of the Chongqing Natural Gas Companies, and Marvel Time Holdings Limited ("Marvel Time"), a wholly-owned subsidiary of the Company and immediate holding company of Sanxia Gas. In or about December 2009, Mr. Tan expressed his intention to exercise the first right to purchase (the "First Right to Purchase") the entire issued capital of Sanxia Gas at a consideration of RMB50 million (approximately HK$56,876,000) in writing, which is the same as that offered by an independent third party in a conditional sale and purchase agreement entered into between the said third party and Marvel Time on 2 December 2009 but subsequently terminated on 29 December 2009. Mr. Tan's First Right to Purchase was contained, amongst other terms and conditions, in the agreement dated 12 April 2006 (as supplemented by another agreement dated 27 April 2006) (collectively "2006 Original Agreement") relating to the Group's acquisition of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies, from Mr. Tan in 7 August 2006. The First Right to Purchase, which was irrevocable, would be valid for 7 years after the completion of the 2006 Original Agreement. Mr. Tan was a former director of the Company who was retired and ceased to be a director of the Company at its annual general meeting held on 10 June 2009. When Mr. Tan purported to exercise the First Right of Purchase in December 2009, Mr. Tan should be deemed to be a connected party of the Company under Rule 14A of the Listing Rules. Up to the date of this report, the Company and Mr. Tan have not yet reached an agreement on the conditions precedent relating to the sale of the entire issued capital of Sanxia Gas, together with the Chongqing Natural Gas Companies. On 19 April 2010, Mr. Tan served a writ of summons, together with an indorsement of claim, against the Company and Marvel Time for (i) specific performance of 2006 Original Agreement to effect the sale of the entire interest of Sanxia Gas to Mr. Tan; (ii) damages in lieu of or in addition to specific performance; (iii) interest and costs arising. The directors of the Company have sought legal advice that the Group has a strong case in defending any legal actions to be taken by Mr. Tan to the effect that the sale of Sanxia Gas, if to take place, shall be subject to those conditions precedent in accordance with the requirements of the Listing Rules.

CHARGE ON ASSETS

The short-term bank deposits, amounted to HK$3,008,000, have been pledged as securities for banking facilities granted to the continuing operations of the Group for the year ended 31 December 2009.

BONUS WARRANTS

On 13 November 2009, the Company issued 1,322,153,278 warrants on the basis of one warrant for every five existing shares of the Company held by the shareholders ("Bonus Warrants"). The holders of Bonus Warrants are entitled at any time during 13 November 2009 to 12 November 2010 for fully paid shares at a subscription price of HK$0.05 per share (subject to adjustment). For the year ended 31 December 2009, 5,488,413 new ordinary shares of HK$0.01 each were issued upon the exercise of 5,488,413 units of Bonus Warrants. As at 31 December 2009, there were 1,316,664,865 units of Bonus Warrants outstanding.

SHARE OPTION SCHEME

The Group has adopted share option scheme whereby Directors and employees of the Group may be granted options to subscribe for new shares of the Company. There were no outstanding share option as at 31 December 2009 as all those brought forward from 2008 were either lapsed or forfeited. There was no option granted during the year.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 19, the Group had no other event after the reporting period as at 31 December 2009.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had 49 employees, of which 35 were in Hong Kong and 14 were in Mainland China, excluding the discontinued operation and disposal group classified as held for sale. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in Mainland China.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2009.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises the three independent non-executive directors of the Company, chaired by Mr. Chan Tsz Kit and the other two members are Mr. Wang Li and Mr. Wong Kwok Hong Simon. The annual results of the Group for the year ended 31 December 2009 have been reviewed by the Audit Committee.

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS

The figures in respect of the preliminary announcement of the results of the Group for the year ended 31 December 2009 have been agreed to the amounts set out in the financial statements for the year by the auditor of the Company, CCIF CPA Limited ("CCIF"). The work performed by CCIF in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCIF on the preliminary announcement.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

As at 1 January 2009, Mr. Tong Nai Kan assumed the role of the chairman of the Company, while Mr. Wang Wengang assumed the role of CEO. Following the resignation of Mr. Wang Wengang as Executive Director and CEO on 1 September 2009, Mr. Tong Nai Kan assumed the roles of both the chairman and CEO of the Company with effect from 1 September 2009, which constitutes a deviation from the code provision A.2.1 during the period from 1 September to 31 December 2009.

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.

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

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

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

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

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

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

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 for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF 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.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of shareholders of the Company will be held upon despatch of the Annual Report. The notice of AGM will be published and despatched to the shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The Company's results announcement for the year ended 31 December 2009 containing all information required by Appendix 16 of the Listing Rules is published on the website of the Stock Exchange at http://www.hkexnews.hk and the Company's website at http://newsmartgroup.etnet.com.hk. The Annual Report will be despatched to the shareholders and published on the above websites in due course.

ACKNOWLEDGEMENT

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

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

Hong Kong, 3 May 2010

As at the date of this announcement, the executive directors of the Company are Mr. Tong Nai Kan, Ms. Tsang Ching Man, Mr. Lo Tai In, Mr. Tam Tak Wah and Ms. Pang Yuen Shan, Christina and the independent non-executive directors of the Company are Mr. Chan Tsz Kit, Mr. Wang Li and Mr. Wong Kwok Hong Simon.