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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 2010

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 2010 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	**2010** ***HK$'000***	2009 *HK$'000*
Continuing operations			
Turnover	3	**48,067**	45,576
Revenue	3	**46,163**	45,576
Cost of sales	5	**(38,560)**	(39,452)
Gross profit		**7,603**	6,124
Other revenue and other income		**754**	381
Administrative expenses		**(43,596)**	(47,523)
Amortisation of production sharing contract	9	**(126,568)**	(124,674)
Fair value change of convertible notes' embedded derivatives	12	**179,550**	(304,332)
Gain on restructuring of promissory notes	13	**21,278**	–
Loss on redemption of promissory notes	13	**(20,137)**	–
Gain on disposal of subsidiaries		**–**	3,092
Finance costs	5(a)	**(40,557)**	(73,175)
Loss before taxation	5	**(21,673)**	(540,107)
Income tax-tax credit	6(a)	**31,642**	31,169
Profit/(loss) for the year from continuing operations		**9,969**	(508,938)

CONSOLIDATED INCOME STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
Discontinued operation			
Loss for the year from discontinued operation	7	–	(71,757)
Profit/(loss) for the year		**9,969**	(580,695)
Attributable to owners of the Company		**9,969**	(580,695)
Earnings/(loss) per share (expressed in HK cents)	8		Restated
From continuing and discontinued operations			
Basic and diluted		**0.29**	(36.15)
From continuing operations			
Basic and diluted		**0.29**	(31.68)
From discontinued operation			
Basic and diluted		–	(4.47)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**42,086**	22,630
Intangible assets	9	**3,625,841**	3,618,284
Interest in an associate, net		**–**	–
Available-for-sale financial assets		**2,641**	2,641
		3,670,568	3,643,555
Current assets			
Trade and other receivables	10	**6,038**	15,242
Cash and bank balances		**346,803**	39,126
		352,841	54,368
Assets of a discontinued operation and disposal group classified as held for sale	7(b)	**97,117**	97,117
		449,958	151,485
Total assets		**4,120,526**	3,795,040
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	11	**265,539**	66,163
Reserves		**1,691,500**	1,108,479
Total equity		**1,957,039**	1,174,642

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2010

	Note	**2010** **HK$'000**	2009 HK$'000
Liabilities			
Non-current liabilities			
Promissory note, unsecured		**–**	142,620
Convertible notes-liability portion, unsecured	12	**1,119,752**	1,190,990
Convertible notes-embedded derivatives, unsecured	12	**32,290**	226,525
Deferred taxation		**906,460**	904,571
		2,058,502	2,464,706
Current liabilities			
Other borrowing, unsecured		**20,035**	20,618
Promissory note, unsecured	13	**–**	60,241
Trade and other payables	14	**39,209**	29,092
		59,244	109,951
Liabilities of a discontinued operation and disposal group classified as held for sale	7(b)	**45,741**	45,741
		104,985	155,692
Total liabilities		**2,163,487**	2,620,398
Total equity and liabilities		**4,120,526**	3,795,040
Net current assets/(liabilities)		**344,973**	(4,207)
Total assets less current liabilities		**4,015,541**	3,639,348

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Share premium	Capital redemption reserve	Special capital reserve	Other capital reserve	Share option reserve	Investment reserve	Exchange reserve	Statutory reserve	Accumu-lated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	737,609	201,302	5,318	–	1,805	1,771	949	29,840	4,478	(244,844)	738,228
Capital reduction *(note 11(a))*	(996,104)	–	–	492,172	–	–	–	–	–	503,932	–
Issue of new shares:											
– upon conversion of convertible notes *(note 11(c))*	317,903	613,944	–	–	–	–	–	–	–	–	931,847
– upon placing of shares *(note 11(d))*	6,700	60,578	–	–	–	–	–	–	–	–	67,278
– upon exercise of bonus warrants *(note 11(e))*	55	220	–	–	–	–	–	–	–	–	275
Share options forfeited	–	–	–	–	–	(1,771)	–	–	–	1,771	–
Loss for the year	–	–	–	–	–	–	–	–	–	(580,695)	(580,695)
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	17,709	–	–	17,709
Total comprehensive income for the year	–	–	–	–	–	–	–	17,709	–	(580,695)	(562,986)
Transfer to statutory reserve	–	–	–	–	–	–	–	–	1,692	(1,692)	–
At 31 December 2009 and 1 January 2010	66,163	876,044	5,318	492,172	1,805	–	949	47,549	6,170	(321,528)	1,174,642
Issue of new shares:											
– upon conversion of convertible notes *(note 11(c))*	3,913	96,661	–	–	–	–	–	–	–	–	100,574
– upon placing of shares *(note 11(d))*	13,000	63,524	–	–	–	–	–	–	–	–	76,524
– upon exercise of bonus warrants *(note 11(e))*	8,716	29,945	–	–	–	–	–	–	–	–	38,661
– upon rights issue *(note 11(f))*	173,747	283,977	–	–	–	–	–	–	–	–	457,724
Profit for the year	–	–	–	–	–	–	–	–	–	9,969	9,969
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	–	–	–	–	–	98,945	–	–	98,945
Total comprehensive income for the year	–	–	–	–	–	–	–	98,945	–	9,969	108,914
At 31 December 2010	265,539	1,350,151	5,318	492,172	1,805	–	949	146,494	6,170	(311,559)	1,957,039

Notes:

1. GENERAL INFORMATION

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. TURNOVER AND REVENUE (CONTINUING OPERATIONS)

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

	2010	2009
	HK$'000	*HK$'000*
Turnover:		
Sale of electronic components	**43,065**	43,207
Sale of coalbed methane products	**2,458**	2,369
Proceeds from sale of trading securities	**2,544**	–
	48,067	45,576
Revenue:		
Sale of electronic components	**43,065**	43,207
Sale of coalbed methane products	**2,458**	2,369
Gain on sale of trading securities	**640**	–
	46,163	45,576

4. SEGMENT INFORMATION

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

Continuing operations:

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

Discontinued operation:

– Natural gas

(a) Segment results, assets and liabilities

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker is set out below:

Year ended 31 December 2010

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

Year ended 31 December 2009

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

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

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

(c) Geographical information

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

(d) Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group is as follows:

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

5. LOSS BEFORE TAXATION

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

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
(a) Finance costs		
Interest expenses on following borrowings wholly repayable within five years		
Imputed interest on promissory notes	**25,863**	52,290
Imputed interest on convertible notes	**14,651**	20,726
Interest on bank overdrafts	**43**	81
Charge on finance lease obligations	**–**	78
Total interest expense on financial liabilities not at fair value through profit or loss	**40,557**	73,175

	Continuing operations	
	2010	2009
	HK$'000	*HK$'000*
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**20,666**	21,235
Contributions to defined contribution retirement plans	**329**	268
Total staff costs	**20,995**	21,503
(c) Other items		
Amortisation of production sharing contract	**126,568**	124,674
Depreciation of property, plant and equipment	**3,575**	4,874
Operating lease charges in respect of land and buildings	**3,417**	4,338
Auditor's remuneration		
– Audit services	**650**	950
– Non-audit services	**220**	125
Loss on disposal of property, plant and equipment	**871**	127
Impairment loss on trade and other receivables	**2,335**	130
Write-down of inventories	**–**	62
Cost of inventories sold	**37,433**	38,341

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

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

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

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

The Company's wholly-owned subsidiary, Can-Elite, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 30% (2009: 30%).

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

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

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

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

On 2 December 2009, the directors of the Company resolved to discontinue the operation of natural gas supply in Chongqing, the PRC which was undertaken by the subsidiaries of Sanxia Gas (BVI) Investment Limited ("Sanxia Gas") through its subsidiaries, namely Chongqing Yunyang Natural Gas Company Limited, Yunyang Three Gorges Compressed Natural Gas Company Limited, Fengjie Three Gorges Wind Natural Gas Company Limited and Wushan Three Gorges Wind Natural Gas Company Limited (collectively the "Chongqing Natural Gas Companies") all established in the PRC. At 31 December 2009, the Chongqing Natural Gas Companies had been reclassified as a disposal group held for sale in accordance with Hong Kong Financial Reporting Standard 5 ("HKFRS 5") "Non-current Assets Held for Sale and Discontinued Operations".

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

On 24 March 2011, the Company completed the disposal of the entire equity interest in Sanxia Gas, together with Chongqing Natural Gas Companies, at a cash consideration of RMB50 million to a former director of the Company, Mr Tan Chuanrong. The cash consideration was received by the Group on 24 March 2011.

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

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

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

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

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

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

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

(i) On 30 January 2008, each of the Chongqing Natural Gas Companies entered into an agreement with 重慶維洲交通設施安裝有限責任公司, an independent third party not associated with the Group and its management, pursuant to which 重慶維洲交通設施安裝有限責任公司 shall charge a fee of RMB0.3 per cubic meter of the gas supplied by 重慶凱源石油天然氣有限責任公司 as consideration for its arrangement services for stable gas supply for a period commencing from 1 February 2008 to date of business cessation of each of the Chongqing Natural Gas Companies. Management of each of the Chongqing Natural Gas Companies considered that 重慶維洲交通設施安裝有限責任公司 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.

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

(iii) On 4 March 2010, the Plaintiff (as referred to note (i) above) instituted another lawsuit against 重慶三峽（燃氣）集團有限公司 ("Chongqing Three Gorges") and the Two PRC Subsidiaries (the "new lawsuit") in which the Plaintiff alleged 重慶三峽（燃氣）集團有限公司 ("Chongqing Three Gorges") had been in breach of the exploitation and operating contract entered into between the Plaintiff and 重慶三峽（燃氣）集團有限公司 ("Chongqing Three Gorges") by (1) setting up the Two PRC Subsidiaries and transferring and assigning its interest in the contract to the Two PRC Subsidiaries; and (2) selling the shareholding interests in the Two PRC subsidiaries to the Company in 2006 without the consent of the Plaintiff. The new lawsuit was subsequently withdrawn pursuant to the order issued by the Court dated 19 October 2010.

(iv) On 24 January 2011, the Company and its representative office in Chongqing, the PRC, received ten civil claims taken out by ten former employees of Chongqing Natural Gas Companies for an aggregate amount of approximately RMB6,698,000 arising from the termination of employment of all these ten employees by the Company. Details are set out in note 17.

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

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

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

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

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

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

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

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

(b) Diluted earnings/(loss) per share

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

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

9. INTANGIBLE ASSETS

The Group

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

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

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

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

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

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

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

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

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

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

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

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

(b) Impairment test on PSC

The recoverable amount of PSC has been determined based on a value in use calculations. The valuation was carried out by BMI Appraisals Limited, an independent firm of professional valuers not connected with the Group. The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering the 12-year period, and discount rate of 16.01% (2009: 17.78%), which is pre-tax and reflect specific risk, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, exploitation method is appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's expectation for the market development. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2010 is based on technical reports issued by Netherland, Sewell & Associates, Inc on 2 March 2011 and 31 October 2008. Since the recoverable amount of the PSC exceeded its carrying amount, no impairment loss is considered necessary for the year ended 31 December 2010 (2009: Nil).

10. TRADE AND OTHER RECEIVABLES

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

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

At 31 December 2010, trade receivables of HK$332,000 (2009: HK$298,000) 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:

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

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

(b) Impairment of trade receivables

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

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

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

At 31 December 2010, the Group's trade receivables of HK$332,000 (2009: HK$ 298,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of HK$34,000 (2009: HK$130,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

11. SHARE CAPITAL

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

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

(a) Capital reduction

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

(b) Capital reorganisation

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

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

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

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

2009

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

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

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

	4/6/2009	**18/6/2009**	**25/6/2009**	**30/6/2009**	**10/8/2009**
Spot price of the Company's share	HK$0.128	HK$0.109	HK$0.109	HK$0.105	HK$0.134
Exercise price of the Company's share	HK$0.25	HK$0.25	HK$0.25	HK$0.25	HK$0.25
Risk free rate	1.83%	2.005%	2.108%	1.945%	1.913%
Expected life	4.48 years	4.44 years	4.42 years	4.41 years	4.30 years
Expected volatility of the Company's share	101.9%	102.9%	104.2%	104.4%	102.48%
Expected dividend yield	0%	0%	0%	0%	0%

	11/8/2009	**19/8/2009**	**20/8/2009**	**23/10/2009**
Spot price of the Company's share	HK$0.139	HK$0.121	HK$0.121	HK$0.112
Exercise price of the Company's share	HK$0.25	HK$0.25	HK$0.25	HK$0.25
Risk free rate	1.862%	1.626%	1.622%	1.483%
Expected life	4.30years	4.30 years	4.30 years	4.1 years
Expected volatility of the Company's share	102.57%	103.01%	103.01%	104.57%
Expected dividend yield	0%	0%	0%	0%

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

2010

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

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

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

(d) Issue of new shares upon placing of shares

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

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

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

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

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

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

(f) Issue of new shares upon rights issue

On 1 December 2010, the Company issued and allotted 4,343,689,872 ordinary shares of HK$0.04 each to the qualifying shareholders pursuant to the rights issue on the basis of two rights shares of every one share held on 8 November 2010 at a subscription price of HK$0.112 per share. The net proceeds of approximately HK$456,000,000 is to be used for the development of its coalbed methane gas business, redemption of promissory notes and general working capital of the Group.

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

12. CONVERTIBLE NOTES

On 26 November 2008, the Company issued convertible notes with an aggregated principle amount of HK$2,000,000,000 with a term of five years as settlement of part of the consideration for the acquisition of 100% equity interest in Merit First Investments Limited. The notes are unsecured and carry zero coupon interest rate. The notes are convertible into ordinary shares of the Company at an initial conversion price of HK$0.25 (subject to adjustments) per conversion share at any time during the period commencing from the date of issue of convertible notes. Upon the issue of bonus warrants on 13 November 2009 as detailed in note 11(e), the conversion price of the convertible notes has been changed from HK$0.25 to HK$0.23 each with effect on 10 November 2009.

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

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

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

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

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal value of HK$2,000,000,000) as at 1 January 2009	146,953	1,877,351	2,024,304
Imputed 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 11 (c))*	(224,760)	(707,087)	(931,847)
Carrying amount of convertible notes (with principal value of HK$1,252,417,000) as at 31 December 2009 and 1 January 2010	226,525	1,190,990	1,417,515
Imputed interest amortised charged to consolidated income statement	–	14,651	14,651
Increase in fair value charged to consolidated income statement	(179,550)	–	(179,550)
Conversion into new shares *(note 11 (c))*	(14,685)	(85,889)	(100,574)
Carrying amount of convertible notes (with principal value of HK$1,162,417,000) as at 31 December 2010	32,290	1,119,752	1,152,042

13. PROMISSORY NOTES, UNSECURED

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

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

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

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

14. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**8,080**	11,825
Other payables	**28,362**	14,925
Accrued operating expenses	**2,767**	2,342
	39,209	29,092

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

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

15. COMMITMENTS

(a) Capital commitments

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

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

There were no material commitments for the discontinued operation and disposal group held for sale as referred to note 7.

(b) Operating lease commitments

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

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

Details of the material operating lease commitments for the discontinued operation and disposal group held for sale are referred to note 7.

16. CONTINGENT LIABILITIES

(a) Environmental contingencies

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

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

17. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 January 2011, the Company and its representative office in Chongqing, the PRC received ten civil claims taken out by ten former employees of the Chongqing Natural Gas Companies issued at the People's Court of Chongqing City Jiang Bei District for an aggregate amount of approximately RMB6,698,000 (the "Employees' Claims"). The Employees' Claims are related to the disputes arising from the termination of the employment of all those ten former employees by the Company and its representative office in August 2009. The total claim amount is approximately RBM6,698,000 which included, inter alia, outstanding salaries, compensation for economic loss arising from the termination of their employment and social security payment. However, the application for the Employees' Claims was rejected by the Chongqing City Labour Dispute Arbitration Committee. Nevertheless, the Purchaser of the Chongqing Natural Gas Companies as referred to in note 7 has confirmed and agreed in writing to take up all responsibilities in handling the Employees' Claims after the completion of disposal of the Chongqing Natural Gas Companies on 24 March 2011. The director of the Company are of the opinion that the Purchaser shall be estopped from taking action against the Company in relation to the Employees' Claims after completion of the disposal in light of the written confirmation and the Purchaser's actual knowledge of the Employees' Claims. Moreover, the Purchaser has undertaken to the Company that the Purchaser shall refrain from taking legal action against the Company and the directors in relation to the Employees' Claims. Based on written undertaking provided by the Purchaser, no provision has been made in the financial statements.

(b) On 24 March 2011, the Company completed the disposal of the entire equity interest in Sanxia Gas, together with Chongqing Natural Gas Companies, at a cash consideration of RMB50 million to a former director of the Company, Mr Tan Chuanrong, as detailed in note 7.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Basis for qualified opinion

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

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

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

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

Qualified opinion arising from limitation of scope

In our opinion, except for the effect on the consolidated financial statements arising from the matters as set out in the basis of qualified opinion paragraph above, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

BUSINESS REVIEW

Coalbed Methane ("CBM") Business

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

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

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

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

Electronic Components Business

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

Treasury Business

The treasury business includes securities trading and money lending businesses.

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

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

Natural Gas Business

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

PROSPECTS

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

In December 2010, the Company allotted 4,343,689,872 new ordinary shares of HK$0.04 each on the basis of two rights shares for every one share at a subscription price of HK$0.112 per rights share under a rights issue. Net proceeds of approximately HK$456,000,000 were primarily used for the repayment of promissory notes, the development of the coalbed methane business and the general working capital of the Group.

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

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

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

COMMITMENTS

Details of the commitments of the Group are set out in 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 16, the Group had no other contingent liabilities as at 31 December 2010.

LITIGATION

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

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

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

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

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

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

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

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

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

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

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

CHARGE ON ASSETS

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

CAPITAL REORGANISATION

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

RIGHTS ISSUE

In December 2010, the Company allotted 4,343,689,872 new ordinary shares of HK$0.04 each on the basis of two rights shares for every one share at a subscription price at HK$0.112 per rights share under a rights issue (the "Rights Issue"). Net proceeds of approximately HK$456,000,000 were primarily used for the repayment of promissory notes, the development of the coalbed methane business and the general working capital of the Group.

BONUS WARRANTS

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

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

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 17, the Group had no other event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in note 7, the Group had no other material acquisition and disposal of subsidiaries during the year ended 31 December 2010.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises the three independent non-executive directors ("INEDs") 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 2010 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 2010 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, A.4.2 and E.1.2, details of which will be explained below.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS 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 to all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of the Company will be held upon despatch of the Annual Report. The notice of Annual General Meeting 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 2010 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 www.newsmartgroup.com. 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, 29 March 2011

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