



CHINA GROUND SOURCE ENERGY LIMITED
中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

Characteristics of the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors of China Ground Source Energy Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to China Ground Source Energy Limited. The directors of China Ground Source Energy Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcement” page on the GEM website for at least 7 days from the date of publication and on the website of China Ground Source Energy Limited at www.iini.com.

The board of directors (“Directors”) of China Ground Source Energy Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 30 September 2009, together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2009

	Notes	2009 HK\$'000	2008 HK\$'000
Continuing operations			
Turnover	2	325,512	139,184
Cost of sales		<u>(217,692)</u>	<u>(69,108)</u>
Gross profit		107,820	70,076
Other revenue and income	4	46,677	24,317
Selling and distribution costs		(11,869)	(6,533)
Administrative expenses		(114,251)	(41,901)
Other operating expenses		<u>(173,894)</u>	<u>(10,468)</u>
(Loss)/Profit from operations	5	(145,517)	35,491
Share of results of a jointly controlled entity		19	(321)
Share of results of associates		(145)	(83)
Finance costs	6	<u>(26,011)</u>	<u>(20,274)</u>
(Loss)/Profit before tax		(171,654)	14,813
Income tax credit	7	<u>2,077</u>	<u>1,070</u>
(Loss)/Profit for the year from continuing operations		<u>(169,577)</u>	<u>15,883</u>
Discontinued operations			
Loss for the year from discontinued operations	8	<u>(3,766)</u>	<u>(5,063)</u>
(Loss)/Profit for the year		<u>(173,343)</u>	<u>10,820</u>
Attributable to:			
Equity holders of the Company		(172,873)	9,170
Minority interests		<u>(470)</u>	<u>1,650</u>
(Loss)/Profit for the year		<u>(173,343)</u>	<u>10,820</u>
(Loss)/Earnings per share attributable to equity holders of the Company during the year			
From continuing and discontinued operations			
Basic	9	<u>(HK\$2.86) cents</u>	<u>HK\$0.20 cents</u>
Diluted	9	<u>(HK\$2.86) cents</u>	<u>HK\$0.20 cents</u>
From continuing operations			
Basic	9	<u>(HK\$2.80) cents</u>	<u>HK\$0.30 cents</u>
Diluted	9	<u>(HK\$2.80) cents</u>	<u>HK\$0.30 cents</u>

CONSOLIDATED BALANCE SHEET

At 30 September 2009

	<i>Notes</i>	2009 HK\$'000	2008 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		90,524	70,833
Prepaid land lease payments		–	3,733
Intangible assets		3,868	5,074
Interest in a jointly controlled entity		–	9,774
Interests in associates		34,694	36,365
Goodwill		585,433	906,862
Available-for-sale investments		24,858	489
		739,377	1,033,130
Current assets			
Inventories		72,802	92,174
Held-for-trading financial assets		1,625	14,502
Trade and retention receivables	<i>10</i>	49,289	101,369
Amounts due from customers for contract works		171,601	88,596
Prepayments, deposits and other receivables		306,513	100,895
Amounts due from minority shareholders		4,574	2,559
Amount due from an associate		–	609
Cash and cash equivalents		131,631	120,041
		738,035	520,745
Current liabilities			
Trade and bills payables	<i>11</i>	94,895	66,116
Amounts due to customers for contract works		32,722	18,304
Accrued liabilities, deposits received and other payables		83,158	98,206
Interest-bearing bank and other loans		1,133	36,344
Amounts due to minority shareholders		12,221	21,968
Amounts due to associates		62,902	89,766
Tax payable		5,859	5,745
		292,890	336,449
Net current assets		445,145	184,296
Total assets less current liabilities		1,184,522	1,217,426

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current liabilities		
Convertible notes	257,143	231,723
Deferred tax liabilities	17,631	21,826
Interest-bearing bank and other loans	5,667	–
Deferred income	<u>25,179</u>	<u>9,989</u>
	<u>305,620</u>	<u>263,538</u>
Net assets	<u>878,902</u>	<u>953,888</u>
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	526,735	440,935
Reserves	<u>304,252</u>	<u>457,610</u>
	830,987	898,545
Minority interests	<u>47,915</u>	<u>55,343</u>
Total equity	<u>878,902</u>	<u>953,888</u>

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments and leasehold buildings which are stated at their fair values.

In the current year, the Group has applied, for the first time, the following new amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 October 2008. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

Amendments to HKAS 39 and HKFRS 7	Reclassification of Financial Assets
HK(IFRIC) – Int 19 and HKAS 39	Embedded Derivatives (Amendments)
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the above new amendment and new interpretations had no material effect on the results of financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ⁵
HKAS 32 (Amendments)	Classification of right issues ⁷
HKAS 39 (Amendment)	Eligible Hedged Item ⁴
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ⁵
HKFRS 1 (Amendments)	Amendments to HKFRS 1 – First-time adoption of Hong Kong Financial Reporting Standards – additional exemptions for first-time adopters ³
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations ⁵
HKFRS 2 (Amendments)	Share-based Payment – Group Cash-settled Share-based Payment Transactions ³

HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments ⁵
HKAS 1 (Revised)	Presentation of Financial Statements ⁵
HKAS 23 (Revised)	Borrowing Costs ⁵
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKAS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Statements ⁴
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 8	Operating Segments ⁵
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ⁵
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ⁴
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁶

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

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

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

⁴ Effective for annual periods beginning on or after 1 July 2009

⁵ Effective for annual periods beginning on or after 1 January 2009

⁶ Effective for transfers on or after 1 July 2009

⁷ Effective for annual periods beginning on or after 1 February 2010

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of the Group.

2. TURNOVER

Turnover represents the net amounts received and receivables from goods sold to customers, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Continuing operations		
Sales and installment of shallow ground energy utilisation system	286,741	73,405
Maintenance services for shallow ground energy utilisation system	218	2,690
Trading of securities	9,945	34,263
Sewage and marsh gas treatment income	28,608	28,826
	<u>325,512</u>	<u>139,184</u>
Discontinued operations		
Sales of communication cables and optical cables	84,319	95,853
	<u>409,831</u>	<u>235,037</u>

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers product and services which are subject to risks and returns that are different from those of the other business segments.

The Group comprises the following business segments:

- (a) Transmission segment – manufacturing and sale of communication cables and optical cables;
- (b) Shallow ground energy segment – provision, installation and maintenance of shallow ground energy utilisation system;
- (c) Environmental protection segment – synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage and waste water and utilisation of new energy sources;
- (d) Securities investments and trading segment – trading of investment securities; and
- (e) Corporate and others segment – provision and sales of telecommunications network infrastructure solutions and network managements solutions.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) **Business segments**

The following tables present revenue, results, certain assets, liabilities and other information for the Group's business segments.

Consolidated income statement

For the year ended 30 September 2009

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Transmission HK\$'000	Shallow ground energy HK\$'000	Environmental protection HK\$'000	Securities investment and trading HK\$'000	Corporate and others HK\$'000	Total HK\$'000	Transmission HK\$'000	Total HK\$'000	
Turnover:									
Sales to external customers	<u>-</u>	<u>286,959</u>	<u>28,608</u>	<u>9,945</u>	<u>-</u>	<u>325,512</u>	<u>84,319</u>	<u>84,319</u>	<u>409,831</u>
Segment results	<u>-</u>	<u>55,527</u>	<u>(5,825)</u>	<u>1,968</u>	<u>(15,438)</u>	<u>36,232</u>	<u>(264)</u>	<u>(264)</u>	<u>35,968</u>
Unallocated other revenue and income						8,315		-	8,315
Unallocated expenses						(190,064)		(89)	(190,153)
Loss from operating activities						(145,517)		(353)	(145,870)
Share of results of a jointly controlled entity	-	19	-	-	-	19	-	-	19
Share of results of associates	-	(145)	-	-	-	(145)	-	-	(145)
Finance costs						(26,011)		(3,413)	(29,424)
Loss before income tax						(171,654)		(3,766)	(175,420)
Income tax credit						2,077		-	2,077
Loss for the year						<u>(169,577)</u>		<u>(3,766)</u>	<u>(173,343)</u>

Consolidated balance sheet

At 30 September 2009

	Continuing operations					Discontinued operations			Consolidated HK\$'000
	Transmission HK\$'000	Shallow ground energy HK\$'000	Environmental protection HK\$'000	Securities investment and trading HK\$'000	Corporate and others HK\$'000	Total HK\$'000	Transmission HK\$'000	Total HK\$'000	
Segment assets	<u>-</u>	<u>534,465</u>	<u>58,307</u>	<u>50,251</u>	<u>49,687</u>	692,710	<u>-</u>	-	692,710
Unallocated assets						<u>784,702</u>		-	<u>784,702</u>
Total assets						<u>1,477,412</u>		-	<u>1,477,412</u>
Segment liabilities	<u>-</u>	<u>197,999</u>	<u>9,594</u>	<u>23,721</u>	<u>13,899</u>	245,213	<u>-</u>	-	245,213
Unallocated liabilities						<u>353,297</u>		-	<u>353,297</u>
Total liabilities						<u>598,510</u>		-	<u>598,510</u>

Consolidated income statement
For the year ended 30 September 2008

	Continuing operations					Discontinued operations		Consolidated
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover:								
Sales to external customers	<u>-</u>	<u>76,095</u>	<u>28,826</u>	<u>34,263</u>	<u>-</u>	<u>139,184</u>	<u>95,853</u>	<u>235,037</u>
Segment results	<u>-</u>	<u>5,825</u>	<u>6,250</u>	<u>33,735</u>	<u>(3,194)</u>	<u>42,616</u>	<u>10</u>	<u>42,626</u>
Unallocated other revenue and income						3,799	-	3,799
Unallocated expenses						(10,923)	-	(10,923)
Profit from operating activities						35,492	10	35,502
Share of results of a jointly controlled entity	-	(321)	-	-	-	(321)	-	(321)
Share of results of associates	-	(83)	-	-	-	(83)	-	(83)
Finance costs						(20,274)	(4,459)	(24,733)
Profit before income tax						14,814	(4,449)	10,365
Income tax credit						1,069	(614)	455
Profit for the year						<u>15,883</u>	<u>(5,063)</u>	<u>10,820</u>

Consolidated balance sheet

At 30 September 2008

	Continuing operations					Discontinued operations		Consolidated
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>-</u>	<u>411,355</u>	<u>56,823</u>	<u>14,502</u>	<u>6,770</u>	489,450	<u>70,035</u>	559,485
Unallocated assets						<u>994,390</u>	<u>-</u>	<u>994,390</u>
Total assets						<u>1,483,840</u>	<u>70,035</u>	<u>1,553,875</u>
Segment liabilities	<u>-</u>	<u>261,963</u>	<u>32,941</u>	<u>-</u>	<u>7,341</u>	302,245	<u>56,916</u>	359,161
Unallocated liabilities						<u>240,826</u>	<u>-</u>	<u>240,826</u>
Total liabilities						<u>543,071</u>	<u>56,916</u>	<u>599,987</u>

(b) Geographical segments

Over 90% of the Group's revenue, assets and liabilities are derived from customers based in the PRC for the years ended 30 September 2009 and 2008 and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

4. OTHER REVENUE AND INCOME

	Continuing operation		Discontinued operation		Consolidated	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Other revenue						
Bank interest income	788	2,203	74	56	862	2,259
Forfeiture of customer deposits	–	3,349	–	–	–	3,349
Government grants	3,932	383	1,582	551	5,514	934
Dividend income	1,256	892	–	–	1,256	892
Consultancy fee income	432	–	–	–	432	–
Sale of raw material	1,244	–	–	–	1,244	–
Others	181	710	–	–	181	710
	<u>7,833</u>	<u>7,537</u>	<u>1,656</u>	<u>607</u>	<u>9,489</u>	<u>8,144</u>
Other income						
Reversal of allowance for doubtful debts	227	1,307	–	–	227	1,307
Reversal of bad debts written off	4,204	13,500	1,232	1,304	5,436	14,804
Gain on winding up of subsidiaries	–	1,027	–	–	–	1,027
Gain on disposal of a subsidiary	8,204	946	–	–	8,204	946
Compensation received	17,043	–	–	–	17,043	–
Disposal of property, plant and equipment	8,770	–	–	–	8,770	–
Tax refund	396	–	–	–	396	–
	<u>38,844</u>	<u>16,780</u>	<u>1,232</u>	<u>1,304</u>	<u>40,076</u>	<u>18,084</u>
	<u>46,677</u>	<u>24,317</u>	<u>2,888</u>	<u>1,911</u>	<u>49,565</u>	<u>26,228</u>

5. (LOSS)/PROFIT FROM OPERATIONS

Expenses included cost of sales, administrative expenses and marketing and distribution expenses are analysed as follows:

	Continuing operation		Discontinued operation		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories						
sold and services provided	217,692	69,109	73,723	87,373	291,415	156,482
Depreciation of property, plant and equipment	6,923	3,510	1,368	1,981	8,291	5,491
Amortisation of prepaid land lease payments	–	–	81	85	81	85
Amortisation of intangible assets	1,193	597	–	–	1,193	597
Auditors' remuneration	2,100	1,000	–	–	2,100	1,000
Minimum lease payments under operating leases in respect of land and buildings	8,137	5,068	–	–	8,137	5,068
Staff costs (including directors' remuneration)						
– Wages and salaries	28,937	20,292	171	–	29,108	20,879
– Pension scheme contributions	284	104	–	–	284	104
Provision of allowance for doubtful debts	11,335	7,183	2,170	–	13,505	7,183
Impairment of goodwill	161,429	1,269	–	–	161,429	1,269
Write-off of property, plant and equipment	1,518	102	–	–	1,518	102
Share-based payment expenses	26,357	–	–	–	26,357	–

6. FINANCE COSTS

	Continuing operation		Discontinued operation		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Imputed interest on convertible notes	25,420	15,843	–	–	25,420	15,843
Interest on bank loans wholly repayable within five years	232	4,431	1,712	1,965	1,944	6,396
Interest on other loans wholly repayable within five years	355	–	1,701	2,494	2,056	2,494
Others	4	–	–	–	4	–
	26,011	20,274	3,413	4,459	29,424	24,733

7. INCOME TAX CREDIT/(EXPENSE)

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2008: Nil). Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both years.

	Continuing operation		Discontinued operation		Consolidated	
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The taxation charge is as follow:						
Current tax:						
Taxation in PRC	(2,118)	(1,544)	–	(615)	(2,118)	(2,159)
Deferred tax	4,195	2,614	–	–	4,195	2,614
	<u>2,077</u>	<u>1,070</u>	<u>–</u>	<u>(615)</u>	<u>2,077</u>	<u>455</u>

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries of the Group from 1 January 2008. The standard Hong Kong profits tax rate is 16.5% for both years.

8. DISCONTINUED OPERATIONS

On 30 June 2009, the Group entered into a sale agreement to dispose of an indirectly wholly-owned subsidiary of the Group, Future Frontier (“FFL”) and its subsidiary Wujiang Shengxin Optoelectronics Technology Company Limited, which carried out manufacturing and sale of communication cables and optical cables, (collectively referred to as the “FFL Group”) to independent third party. The disposal was completed on 8 September 2009.

The combined results of the discontinued operations related to FFL Group are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Loss for the year from discontinued operations		
Turnover	84,319	95,853
Cost of sales	(73,723)	(87,373)
Gross profit	10,596	8,480
Other revenue and other income	2,888	1,911
Selling and distribution costs	(6,352)	(3,945)
Administrative expenses	(5,315)	(6,435)
Other operating expenses	(2,170)	–
(Loss)/Profit from operations	(353)	11
Finance costs	(3,413)	(4,459)
Loss before tax	(3,766)	(4,448)
Income tax expenses	–	(615)
Loss for the year from discontinued operations	<u>(3,766)</u>	<u>(5,063)</u>
Cash flows from discontinued operations		
Net cash flows from operating activities	(18,409)	(28,309)
Net cash flows from investing activities	(84,574)	(17,609)
Net cash flows from financing activities	25,000	(11,409)
Net cash flows	<u>(77,983)</u>	<u>(57,327)</u>

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

From continuing and discontinued operations

The calculation of the basic and diluted (loss)/earnings per share attributable to equity holders of the Company is based on the following data:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(172,873)</u>	<u>9,170</u>
	2009 <i>'000</i>	2008 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	6,041,879	4,682,687
Effect of dilutive potential ordinary shares:		
Share options	<u>107,188</u>	<u>3,789</u>
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	<u>6,149,067</u>	<u>4,686,476</u>

From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations attributable to equity holders of the Company is based on the following data:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	(172,873)	9,170
Less: Loss for the year from discontinued operations	<u>(3,766)</u>	<u>(5,063)</u>
	<u>(169,107)</u>	<u>14,233</u>

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK\$0.06 cents per share (2008: HK\$0.11 cents), based on the loss for the year from the discontinued operations of approximately HK\$3,766,000 (2008: HK\$5,063,000) and the denominators used are the same as those detailed above.

Diluted (loss)/earnings per share for the years ended 30 September 2009 and 2008 are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

10. TRADE AND RETENTION RECEIVABLES

An aged analysis of the Group's trade receivables at the balance sheet dates is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 90 days	16,053	33,943
91 – 180 days	11,724	28,358
181 – 365 days	20,787	22,678
Over 365 days	<u>23,667</u>	<u>33,670</u>
	72,231	118,649
Allowance for doubtful debts	<u>(22,942)</u>	<u>(17,280)</u>
	<u><u>49,289</u></u>	<u><u>101,369</u></u>

11. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables at the balance sheet dates is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 90 days	37,509	18,590
91 – 180 days	20,767	16,483
181 – 365 days	13,013	14,110
Over 365 days	<u>23,606</u>	<u>16,933</u>
	94,895	66,116
	<u><u>94,895</u></u>	<u><u>66,116</u></u>

SUMMARY OF AUDITOR'S REPORT

The Directors would like to draw your attention to the fact that the independent auditor's report on the consolidated financial statements of the Group for the year ended 30 September 2009 contains the following "basis for disclaimer of opinion" and "disclaimer of opinion":

BASIS FOR DISCLAIMER OF OPINION

- (a) Included in "prepayments, deposits and other receivables" on the consolidated balance sheet of the Group as at 30 September 2009 was an amount due from 湖南衡興環保科技開發有限公司 ("衡興環保") of approximately HK\$4,065,000 (the "Balance") which was recorded by a wholly owned subsidiary of the Company, namely, 深圳市利賽實業發展有限公司 ("利賽"). During the year ended 30 September 2009, the Group also advanced amounts totaling approximately HK\$5,066,000 to and received amounts totaling approximately HK\$5,553,000 from 衡興環保. In addition, included in "goodwill" on the consolidated balance sheet of the Group

as at 30 September 2009 was goodwill arising from the acquisition of 利賽 of approximately HK\$56,658,000. Management of the Group has not classified 衡興環保 as a “related party” as defined in Hong Kong Accounting Standard 24 “Related Party Disclosures” (“HKAS 24”) in the Group’s consolidated financial statements. However, during the course of our audit of the Group’s consolidated financial statements for the year ended 30 September 2009, new evidence has come to light which suggested that 衡興環保 might meet the definition of a “related party” as defined in HKAS 24. As described in note 4(a)(i) to the financial statements, we understand that the board of directors of Company (the “Board”) has resolved to conduct a special investigation for the purpose of, among other things, ascertaining the relationship between the Group and 衡興環保 (the “衡興環保 Investigation”). Up to the date of this report, the 衡興環保 Investigation has not been completed and the outcome of the 衡興環保 Investigation was uncertain. Accordingly, the consolidated financial statements did not include any adjustments or disclosures that would have been necessary if 衡興環保 had been found to be a related party of the Group. The existence of uncertainties surrounding the outcome of the 衡興環保 Investigation may cast significant doubt as to the appropriateness of the accounting treatment adopted by the Group in accounting for 利賽 and 衡興環保 and the related disclosures thereof. Any adjustments or disclosures that might have been found to be necessary in respect of the above would have a consequential significant effect on the accounting treatment adopted by the Group in accounting for 利賽 and 衡興環保 and the related disclosures thereof in the Group’s financial statements and may have resulted in additional information being disclosed in the financial statements as to the nature of the relationship and transactions between the Group and 衡興環保.

- (b) Included in prepayments, deposits and other receivables on the consolidated financial statements of the Group as at 30 September 2009 is compensation receivable of approximately HK\$160,000,000 arising from the profit guarantee entered into between the Company and the vendor of holding companies of 利賽 in connection with the Group’s acquisition of 利賽 (the “Compensation”). We were unable to obtain sufficient appropriate explanations and evidence as to whether the Compensation is recoverable. There were no other alternative audit procedures that we could perform to satisfy ourselves as to whether the Compensation is recoverable.
- (c) 吳江市勝信光電科技有限公司 (“勝信”) was an indirect, non-wholly owned subsidiary of the Company and was disposed of during the year ended 30 September 2009 through the disposal of the Company’s equity interest in Future Frontier Limited (“FFL”), an indirect, wholly owned subsidiary of the Company. Prior to the aforesaid disposal, 勝信 was accounted for as a 51% owned subsidiary since the date of acquisition and up to the date of disposal. However, during the course of our audit of the Group’s consolidated financial statements for the year ended 30 September 2009, new evidence has come to light which suggested that an increase in the registered capital of 勝信 (the “Capital Injection”) which purportedly took place in December 2005 might have diluted the Group’s then equity interest in 勝信 from 51% to 32.74%, thereby casting doubt as to the appropriateness of the accounting treatment previously adopted by the Group in accounting for 勝信. As described in note 4(a)(ii) to the financial statements, the Board has resolved to conduct a special investigation for the purpose of, among other things, ascertaining the extent of the Group’s ownership interests in 勝信 at the material times (the “勝信 Investigation”). Up to the date of this report, the 勝信 Investigation has not been completed and the outcome of the

胜信 Investigation was uncertain. Accordingly, the consolidated financial statements did not include any adjustments or disclosures that would have been necessary if the accounting treatment previously adopted by the Group in accounting for 胜信 had not been appropriate. The existence of uncertainties surrounding the outcome of the 胜信 Investigation may cast significant doubt as to the appropriateness of the accounting treatment previously adopted by the Group in accounting for 胜信 and the related disclosures thereof. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the profit and cash flows of the Group for the year ended 30 September 2009 and the related disclosures thereof in the Group's financial statements.

- (d) The Group recorded a gain on disposal of FFL and 胜信 (the "FFL Group") amounted to approximately HK\$2,122,000 based on its unaudited consolidated balance sheet of FFL Group as at 8 September 2009 and unaudited consolidated income of FFL Group for the period from 1 October 2008 to 8 September 2009. The loss of FFL Group prior to disposal included in the Group's consolidated financial statements amounted to HK\$3,766,000. For the period from 1 October 2008 to 8 September 2009, 胜信 reported sales to certain customers and the outstanding receivable balances relating to these sales amounted to HK\$15,266,000. We have been unable to obtain sufficient audit evidence on the sales as to the delivery of goods to customers. There is no other sufficient audit evidence available to us to ascertain the validity of these recorded sales transactions. In addition, 胜信 recorded on its balance sheet at 8 September 2009 inventory balances amounted to approximately HK\$1,463,000. We have been unable to obtain sufficient audit evidence as to the accuracy of this inventory balance. Therefore we are unable to satisfy ourselves as to whether the sales of the Group for the year ended 30 September 2009 and the gain on disposal of FFL Group have been accurately recorded.

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

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the affairs the Group and the Company as at 30 September 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements are properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as described in the basis for the disclaimer of opinion above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

Total revenues from continuing and discontinued operations for the year ended 30 September 2009 were HK\$410 million, as compared with HK\$235 million for the year ended 30 September 2008, which represented a 75% increase in total revenues.

The following table sets forth a breakdown of our total revenues for the year indicated:

% of Revenues for Period Indicated Year Ended 30 September,

	2009	2008
	%	%
Continuing Operations		
Sales and installment of shallow ground energy utilisation system	70	31
Maintenance services for shallow ground energy utilisation system	1	1
Trading of securities	2	15
Sewage and marsh gas treatment income	7	12
Discontinued operations		
Sales of communication cables and optical cables	<u>20</u>	<u>41</u>
	<u>100</u>	<u>100</u>

Most of the increase in revenues was derived from shallow ground energy utilisation system and installation services segment represented 71% of our total revenues.

For the year ended 30 September 2009, our sewage and marsh gas segment represented approximately 7% of our total revenues, while our communication and optical cables segment, the discontinued operations, and trading of securities segment represented approximately 20% and 2% respectively of our total revenues.

Our primary focus continues to be the implementation of our organic growth through development, the construction of new projects and enhancements of existing projects on shallow ground energy and sewage and marsh gas treatment. We expect that this investment in organic growth will increase our total generating capacity, consolidated revenues and operating income year over year.

Loss attributable to equity holders of the Company for the year ended 30 September 2009 was HK\$173 million, as compared with HK\$9.2 million profit for the year ended 30 September 2008. Such decrease in income was principally attributable to: (i) a HK\$161 million increase in non-cash impairment losses on goodwill; (ii) a HK\$10 million increase in non-cash imputed interests on convertible notes; and (iii) a HK\$26 million increase in non-cash share based payment expenses. Excluding these non-cash transaction, the profit for the year would have increased approximately by 118% from HK\$11 million in 2008 to HK\$24 million in 2009.

Gross Profit Margin

The gross profit margin from continued operations for 2009 was 33% compared to 50% in 2008. The decrease was due to the increased of cost of sales. The cost of sales includes materials, salaries and related employees benefits, expenses related to subcontracting activities and transportation expenses. Some of the principal expenses attributable to our sales, such as a portion of the costs related to labor, utilities and other support services are fixed, while others, such as materials, construction, transportation and sales commissions, are variable and may fluctuate significantly, depending on market conditions. As a result, the cost of sales for year 2009 was 67% expressed as a percentage of total revenues, fluctuates. Another reason for such fluctuation is that in responding to bids for our project sales, we price our project fee in relation to existing competition and other prevailing market conditions, which may vary substantially from order to order.

Other Revenue and Income

Total other revenue and income increased by HK\$23 million to HK\$47 million during 2009 as compared to HK\$24 million in 2008, primarily due to the (i) increased of government grants on environmental protection projects, (ii) non-recurring gain on disposal of a subsidiary and (iii) the compensation granted by the municipal government of Beijing based on practical conditions in respect of the effect on credit because of the implementation of civil construction on the road of the Company.

Selling & Distribution Costs and Administrative Expense

Selling & distribution costs and administrative expenses for all periods presented include expenses related to our marketing, sales, accounting, legal, human resources and other administrative functions. General and administrative expenses also include non-cash equity-based compensation paid to employees.

Selling & distribution costs for the year ended 30 September 2009 constituted 4% of revenues from continuing operations for such period, as compared with 5% for the year ended 30 September 2008. Administrative expenses for the year ended 30 September 2009 increased to 35% of revenues from continuing operations for such period, from 30% for the year ended 30 September 2008. Such increase primarily attributable to equity-based non-cash compensation for the year ended 30 September 2009 increase HK\$26 million over the year ended 30 September 2008 as a result of stock option grants to employees. We have made significant use of non-cash equity-based compensation to conserve cash and provide incentives to our employees.

Segmental Information

The Company reportable operating segment consists of shallow ground energy utilisation segment, environmental protection segment, transmission segment and securities investments and trading segment.

Further information regarding the Company's operating segments may be referred to note 3, 'Segment Information' to this result announcement.

Financial Resources and Liquidity

Our cash and cash equivalents as of 30 September 2009 increased marginally to HK\$132 million from 120 million as of 30 September 2008. This marginal increase is principally due to the proceeds from placing of new shares of HK\$85.8 millions, which was partially offset to fund capital expenditures. Various assets and liabilities, including cash and short-term debt, can fluctuate significantly from month to month depending on short term liquidity needs. Net current asset totaled HK\$445 million at 30 September 2009, increasing approximately HK\$261 million from year-end 2008.

Our ability to successfully grow our business is dependent on the continued availability of capital on attractive terms and maintaining sufficient liquidity.

We remain focused on increasing our earnings and generating sufficient cash flows to maintain adequate levels of liquidity to service our debt and funding our operations.

Charges of Group Assets

Details of the charge on Group assets are set out in note 34 to the consolidated financial statement of the latest Company's Annual Report for the year ended 30 September 2009.

Exposure to Fluctuation in Exchange Rates

Most of the trading transactions and cost incurred by the group are principally denominated in Hong Kong dollars and Renminbi.

The Group continued to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 30 September 2009, the Company had no foreign exchange contracts.

Gearing Ratio

The gearing ratio of the Company, based on total borrowings (including interest-bearing bank and convertible notes) to the equity (including all capital and reserves) of the Company, increased to 32% for the period under review (2008: 30%).

Employees

The Company had a total number of staff approximately 610 (2008: approximately 600). Remuneration packages are reviewed on a periodical basis. The emoluments of the directors of the Company are approved by the Board of Directors based on the recommendations made by the remuneration Committee of the Company. Staff cost including directors' emoluments increased to approximately HK\$29 million for the year as compared with that of approximately HK\$21 million in 2008.

Share Option Schemes

At present, the Group has a share option plan, whereby directors and employees of the Group may be granted stock options for subscription of shares of the Company.

Contingent Liabilities

As at the date of this announcement, the Directors have had no knowledge of any material contingent liabilities.

Dividend

The Board of Directors does not recommend the payment of a final dividend for the year under review (2008: Nil).

Capital Structure

During the year under review, movement of share capital of the Company was as follows:

On 26 June 2009, the Company completed a share placement to place an aggregate of 1,100,000,000 shares at the price of HK\$0.078 per placing share.

As at 30 September 2009, 6,753,112,470 shares of the Company were issued and fully paid.

Capital Commitment and Substantial Investments

Details of the capital commitment are set out in note 49 to the consolidated financial statements of the latest Company's Annual Report for the year ended 30 September 2009.

Future Plans for Substantial Investments of Capital Assets

As at the date of this announcement, the Group did not have any plans for substantial investments of capital assets.

Major Acquisitions and Disposals

Details of major disposal transaction are set out in note 45(a) to the consolidated financial statements of the latest Company's Annual Report for the year ended 30 September 2009 and announcement dated 7 August 2009.

BUSINESS REVIEW AND OUTLOOK

Shallow Ground Energy Utilisation

In 2009, Beijing Enterprises Ever Source Ltd. and its subsidiaries ("HYY") has achieved good outcomes and profits in its application of using shallow ground energy as substitute energy to provide heating for buildings. The projected goals have been realised.

2009 is an important year for the international community to promote low-carbon economy, energy conservation and emission reduction. In the process of ever-growing industrialisation and urbanisation and the increasingly intensifying confrontation between resources and environment, the Chinese government has launched a series of new measures and policies to radically reduce emissions and pollutions, forcefully promote the construction of energy-conservative and environment-friendly society, actively advance circular economy and nurture low-carbon growth. In this context, HYY has made great progress in expanding the coverage and utilisation of Ground-Source Heat Pump System and managed to sustain its business growth. Moreover, the Company attaches importance to development of human capital. Through years of technology development and business practices, the Company has built up a high quality team with integrated capacity in technology, profession and services that effectively secures the long-term growth and sustainable development of the substitute energy business of the Company.

Currently, the energy consumption of buildings in China has taken up to 40% of the total energy consumed by the entire society and become a biggest energy consuming sector in the economy. Therefore, the energy efficiency in buildings outstands as a key area for China to realise its objective of reducing energy consumption. Whereas, HYY by combining its international patent technology of shallow ground energy collection through Single-well Circulation Heat Exchange with the internationally-accepted technology of buried pipes, has proved its Ground-source Heat Pump System to be fully applicable in locations of various geological conditions and highly efficient in providing heating free of pollution, water loss and potential geological risks. With the technology, the Company has realised a low-cost heating for buildings, i.e., using 1 unit of electricity to generate heating equivalent to that by 3-4 unit of electricity and providing heating to buildings in a clean and emission-free way. The successful business expansion of the Company has also verified that the clean and renewable shallow ground energy is highly efficient and reliable substitute energy for heating.

In addition, the Company's patent technology of shallow ground energy collection through Single-well Circulation Heat Exchange stands not only as a core technology that secures shallow ground energy as substitute energy for heating, but also provides a solution to the international hard-nut issue of the circulation and same-layer re-injection of traditional geo-thermal water after used for power generation and heating.

Along with the successful development of its substitute energy business, HYY is also keen on improving its service networks and reinforcing its energy service management, aiming at nurturing a new growth point for the Company. It is believed that in the coming years the energy service business will contribute favorably to the Company's balance sheet.

To explore new ways of expanding its substitute energy business, HYY endeavors to further tap its potentials. It is actively engaging local governments in China to join their efforts in promoting energy saving, emission reduction and low-carbon economy. The intention is to extend the Company's business lines to the construction of demo projects of low-carbon and green buildings for real estate development and thus to cultivate a new structure of energy utilisation and a model of low-carbon green architecture that saves both energy and land resources. For the time being, the Company has started its engagement with local governments and made some land procurement arrangements. It is expected that in the upcoming years, the development of low-carbon green real estate projects will become a mainstream business of the Company.

Not long ago, the Chinese government officially specifies its objective of emission reduction to cut its CO₂ emission per unit GDP by 40-45% till the year of 2020 based on that of 2005 and announced a series of policy measures in this regards. This will create unprecedented opportunities for HYY to develop its substitute energy business.

Environmental Protection

In 2009, Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai"), which mainly operates the environmental protection business, has secured the initiative for gas collection through taking over the landfill gas collection system of Xiaping landfill site. During the period, through, among other initiatives, increasing the number of gas wells, gas well optimization and gas well maintenance, Shenzhen Lisai has substantially increased the amount of gas and the amount of gas at the end of the year is two times of that of the beginning of the year. The CERs has increased substantially accordingly.

In 2009, the project had been certified twice in respect of carbon dioxide emission reduction and the aggregate amount of CERs was approximately 280,000 tons. The two current certification reports are in the process of reviewing and it is expected that the reports shall be approved and issued the transaction amount shall be obtained from the client in the first half of next year.

Meanwhile, the CDM department has generated certain amount of revenue through miscellaneous projects at Xiaping landfill site.

Currently, Shenzhen Lisai is in the process of acquiring the management right of Xiaping landfill site through bidding for the coming three years and, if successful, Shenzhen Lisai will be more active and have more control on the project commencement and gas collection. To improve the emission reduction, the CDM project will enhance the gas utilisation by increasing the number of combustion plants and power equipments

It is planned that the project will obtain two certifications in respect of the emission reduction in middle of and at the end of next year respectively.

Guanlan River sewage treatment project is operating steadily, the water quality after processing has reached the relevant requirement. With the efforts of all levels of the Company, the output of the year reached last year's level. The Company will step up its efforts in terms of management to improve its efficiency.

The ash treatment project for the incineration of household garbage in Shenzhen city ("ash treatment project") adopts the "stabilization technology of macromolecular chelating agents" introduced by Tsing Hua University in "The Research Report on the Environmental Technology Sector under '863 Program'—Treatment and Disposal Technology of Dangerous Waste" for incineration and ash treatment. The reaction between the agents and the heavy metals in the ash will form stable macromolecular chelates, realizing the non-polluting of ashes. The construction is the first ash stabilizing treatment construction of the PRC designed and constructed for the target of the entry of household garbage landfill business. The completion of the project will resolve the disposal problem of massive amount of ash generated from incineration, setting an example in the PRC. Currently, the project is progressing smoothly and the Company is applying for approval according to the relevant requirement of the PRC. After the official commencement of operation, the project will become a new channel to generate business growth for the Company.

Securities Investments

As part of its treasury management to obtain better return from the surplus cash, the Group will conduct securities investment and trading in a more conservative and cautious manner.

Transmission

Due to the Company intended to focus on new energy and environmental protection businesses, a strategic move was made to withdraw from the telecommunication industry by disposing of entire equity interests of Future Frontier Limited which owned 51% of Wujiang Shengxin Optoelectronics Technology Co., Ltd. As the disposal was completed on 8 September 2009, therefore, the results of the transmission business that carried out by Wujiang Shengxin Optoelectronics Technology Co., Ltd. are still required to be consolidated in this year's consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 September 2009, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(a) Long position in shares and equity derivatives

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares			
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	-	-	55,000,000	95,296,000	-
	Interest of spouse	40,296,000	0.71%	-		
Mr. Wu Shu Min (Note 2)	Beneficial owner	146,023,000	2.16%	68,000,000	214,023,000	3.17%
Mr. Xu Shengheng (Note 3)	Beneficial owner	1,057,048,000	15.65%	55,000,000	1,794,856,000	26.59%
	Interest of spouse	2,808,000	0.04%	-		
	Interest of controlled corporation	-	-	680,000,000		

Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 55,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. In addition, Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 40,296,000 shares of the Company (“Shares”). Under SFO, Ms. Chan is also deemed to be interested in 40,296,000 Shares in which Mr. Chow is interested.
2. Mr. Wu Shu Min is interested in 146,023,000 Shares and 68,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
3. Mr. Xu Shengheng (“Mr. Xu”) holds 1,057,048,000 Shares and 55,000,000 share options of the Company. Ever Sincere Investment Ltd. (“Ever Sincere”) is 100% owned by Mr. Xu. Ms. Luk Hoi Man (“Ms. Luk”), is the spouse of Mr. Xu, holds 2,808,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in 1,057,048,000 Shares, 2,808,000 Shares in which Ms. Luk is interested, 680,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere and 55,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share option can be referred to part (b) of this section.

(b) Long position under equity derivatives

The Scheme

On 22 November 2001, the Company conditionally adopted a share option scheme (the “Scheme”) for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company’s shares on the GEM of the Stock Exchange on 30 November 2001. Under the Scheme, the board of directors was authorised, at its absolute discretion, to grant options to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of the Scheme. As at 30 September 2009, the following directors of the Company were interested in the following options under the Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 September 2009
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.0826	55,000,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.0826	55,000,000
Mr. Wu Shu Min	7 March 2002 5 June 2003 23 June 2009	7 March 2002 to 21 December 2011 5 June 2003 to 21 December 2011 23 June 2009 to 21 December 2011	0.465 0.078 0.0826	10,000,000 3,000,000 55,000,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.0826	35,000,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.0826	15,000,000
Ms. Chan Man Kuen Laura	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000

Save as disclosed above, as at 30 September 2009, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 30 September 2009, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
China Standard Limited (Note 1)	Beneficial owner	500,000,000	7.40%	400,000,000	900,000,000	13.33%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	525,716,000	7.78%	–	525,716,000	7.78%
Cheung Kwan (Note 2)	Beneficial owner	157,400,000	2.33%	–	683,116,000	10.12%
	Interest of controlled corporation	525,716,000	7.78%	–		
Ever Sincere Investment Limited (Note 3)	Beneficial owner	–	–	680,000,000	680,000,000	10.07%
Luk Hoi Man (Note 4)	Beneficial owner	2,808,000	0.04%	–	1,794,856,000	26.59%
	Interest of spouse	1,057,048,000	15.65%	735,000,000		
AIG Global Investment Corp. (Asia) Ltd.	Investment manager	389,000,000	5.76%	–	389,000,000	5.76%
Zeng Yi Xiang	Beneficial owner	338,000,000	5.01%	–	338,000,000	5.01%

Notes:

1. These are the consideration shares and conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
2. Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 683,116,000 Shares.
3. These are conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere Investment Limited ("Ever Sincere") pursuant to the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.
4. Ms. Luk Hoi Man ("Ms. Luk"), is the spouse of Mr. Xu Shengheng ("Mr. Xu"). Therefore, under SFO, Ms. Luk is deemed to be interested in 1,057,048,000 Shares and 735,000,000 underlying shares of the Company including 55,000,000 Share options that Mr. Xu is interested in otherwise than by virtue of interest of spouse.

Save as disclosed above, as at 30 September 2009, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 30 September 2009, except that:

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During certain periods in the year ended 30 September 2009, both of the responsibilities of chairman and the chief executive officer of the Company were performed by Mr. Wu Shu Min. However, since the appointment of Ms. Chan Wai Kay Katherine as chairman and Mr. Xu Shengheng as chief executive officer of the Company on 6 February 2009, the roles of chairman and chief executive officer have been separately performed by Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng respectively.

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

MATERIAL UNCERTAINTIES IN FINANCIAL STATEMENTS

The Board would like to draw the attention of the shareholders and the potential investors of the Company to the uncertainties raised in the subsection headed “Basis for disclaimer of opinion” in the Independent Auditors’ Report. Certain information regarding such uncertainties was disclosed in the announcement issued by the Company on 23 December 2009.

In the process of the audit of the consolidated financial statements of the Group for the year ended 30 September 2009, the following matters have come to the notice of the Company’s auditors:

1. uncertainty as to the relationship between the Group and a company called 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environmental Technology Development Company Limited) (“Hunan Hengxing”), a company established under the laws of the PRC. Such uncertainty is raised from a document discovered by the Company’s auditors which shows that 深圳市利賽實業發展有限公司 (Shenzhen Lisai Industrial Development Company Limited), a wholly-owned subsidiary of the Company, may have a relationship with Hunan Hengxing; and
2. uncertainty as to Group’s equity interest in 吳江市勝信光電科技有限公司 (Wujiang Shengxin Optoelectronics Technology Co., Ltd.) (“Shengxin”) for the period between December 2005 and September 2007. Such uncertainty is raised from documents discovered by the Company’s auditors which show an inconsistency in the Group’s equity interest in Shengxin. Certain documents appear to show that the Group’s equity interest in Shengxin might have been diluted from 51% to 32.745% as a result of a purported capital injection of RMB 8 million contributed by 吳江市信誠光電線纜廠 (Wujiang City Xincheng Optoelectronics Cable Factory) (another equity owner of Shengxin which should be holding 49% equity interest in Shengxin), while other documents suggest that the Group held an equity interest of 51% in Shengxin.

The Company has been advised by its auditors:

- (i) that the existence of aforesaid uncertainty surrounding the relationship between the Group and Hunan Hengxing may cast significant doubt on the appropriateness of accounting treatment of the transactions between the Group and Hunan Hengxing and the related disclosures in the Group’s consolidated financial statements; and
- (ii) that any adjustment that might have been found to be necessary in respect of the uncertainty as to the Group’s equity interest in Shengxin could have a significant effect on the consolidated financial statements which have previously been issued by the Group for the years ended 2006, 2007 and 2008 and the consolidated financial statements of the Group for the year ended 30 September 2009.

The Board takes a serious view of the above matters and has resolved to appoint an independent auditor to conduct a special investigation on (i) the relationship between the Group and Hunan Hengxing; and (ii) the ownership interests of the Company in Shengxin for the period from December 2005 to September 2007.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests, with the Group.

AUDIT COMMITTEE

The Company has an audit committee (the “Audit Committee”) established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the directors of the Company.

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul.

The Audit Committee has reviewed the Group’s audited annual results for the year ended 30 September 2009 and has provided advice and comments thereon. The Audit Committee held four meetings during the year.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the year, the directors have complied with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

As at the date of this notice, the Board comprises Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

By order of the board of
China Ground Source Energy Limited
Chan Wai Kay, Katherine
Chairman

Hong Kong, 30 December 2009