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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 SIX MONTHS ENDED 31 MARCH 2010

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

FINAL RESULTS

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 six months ended 31 March 2010, together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 March 2010

	Notes	**Six months ended 31 March 2010** *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Continuing operations			
The Turnover	5	**180,828**	365,674
Revenue	*6*	**178,998**	316,823
Cost of sales		**(133,949)**	(217,692)
Gross profit		**45,049**	99,131
Other income	*7*	**19,126**	24,940
Selling and distribution costs		**(5,741)**	(11,869)
Administrative expenses		**(43,472)**	(105,481)
Other operating expenses		**(1,149)**	(2,647)
Allowance for doubtful debts		**(11,567)**	(9,818)
Gain on disposal of financial assets at fair value through profit or loss		**266**	9,945
Gain on disposal of available-for-sale investments		**13,234**	–
Reversal of allowance for doubtful debts		**18,907**	4,204
Profit from operations		**34,653**	8,405
Share of profits (losses) of associates		**214**	(145)
Share of profit of a jointly controlled entity		**–**	19
Gain on cancellation of convertible notes		**13,953**	–
Gain on disposal of subsidiaries		**12,626**	6,083
Impairment loss on goodwill		**(56,658)**	(161,429)
Impairment loss on property, plant and equipment		**(23,178)**	–
Finance costs	*8*	**(17,740)**	(26,011)
Loss before tax		**(36,130)**	(173,078)
Income tax expense	*9*	**(12,640)**	(714)
Loss for the period/year from continuing operations		**(48,770)**	(173,792)
Discontinued operation			
Loss for the period/year from discontinued operation	*10*	**–**	(1,644)
Loss for the period/year		**(48,770)**	(175,436)

	Notes	Six months ended 31 March 2010 HK$'000	Year ended 30 September 2009 HK$'000 (Restated)
Loss for the period/year attributable to:			
Owners of the Company		**(46,404)**	(175,299)
Non-controlling interests		**(2,366)**	(137)
		(48,770)	(175,436)
Loss per share	*12*		
From continuing and discontinued operations			
Basic and diluted (HK cents)		**(2.75)**	(11.61)
From continuing operations			
Basic and diluted (HK cents)		**(2.75)**	(11.50)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2010

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Loss for the period/year	**(48,770)**	(175,436)
Other comprehensive (expense) income		
Exchange differences arising on translation of foreign operations	**(402)**	2,850
Gain on fair value changes of available-for-sale investments	**6,221**	–
Reclassification adjustments for amounts transferred to profit or loss:		
– upon disposal of available-for-sale investments	**(6,221)**	–
– release of exchange translation reserve upon disposal of subsidiaries	**(29)**	(515)
– release of asset revaluation reserve in relation to leasehold buildings upon disposal of subsidiaries	**–**	1,321
Other comprehensive (expense) income for the period/year	**(431)**	3,656
Total comprehensive expense for the period/year	**(49,201)**	(171,780)
Total comprehensive expense attributable to:		
Owners of the Company	**(46,984)**	(176,069)
Non-controlling interests	**(2,217)**	4,289
	(49,201)	(171,780)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Notes	**31 March 2010** *HK$'000*	30 September 2009 *HK$'000* (Restated)
Non-current assets			
Property, plant and equipment		**29,808**	90,524
Deposit paid for acquisition of land use rights		**56,787**	34,002
Goodwill		**505,062**	561,720
Intangible assets		**3,280**	3,868
Interests in associates		**34,998**	34,694
Available-for-sale investments		**488**	24,858
Other receivable		**12,875**	–
Deferred tax assets		**22,802**	25,190
		666,100	774,856
Current assets			
Inventories		**71,092**	72,802
Trade and retention receivables	*13*	**68,519**	49,289
Prepayments, deposits and other receivables		**78,264**	272,511
Amounts due from customers for contract work		**160,424**	171,601
Amounts due from non-controlling shareholders		**4,570**	4,574
Held-for-trading financial assets		**56**	1,625
Cash held at non-bank financial institutions		**692**	18,603
Bank balances and cash		**134,925**	113,028
		518,542	704,033
Current liabilities			
Trade payables	*14*	**84,113**	94,895
Accrued liabilities, deposits received and other payables		**69,812**	83,158
Amounts due to customers for contract work		**17,321**	32,722
Amounts due to non-controlling shareholders		**9,806**	12,221
Amount due to an associate		**36,257**	62,902
Amount due to an investee company		**1,317**	–
Other loans		**–**	1,133
Tax payable		**13,912**	5,859
		232,538	292,890
Net current assets		**286,004**	411,143
Total assets less current liabilities		**952,104**	1,185,999

	Notes	**31 March 2010** *HK$'000*	30 September 2009 *HK$'000* (Restated)
Non-current liabilities			
Convertible notes		**145,919**	257,143
Other loans		**–**	5,667
Deferred income		**4,458**	25,179
		150,377	287,989
Net assets		**801,727**	898,010
Capital and reserves			
Share capital		**529,387**	526,735
Reserves		**227,103**	321,624
Equity attributable to owners of the Company		**756,490**	848,359
Non-controlling interests		**45,237**	49,651
Total equity		**801,727**	898,010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2010

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Statutory reserve *HK$'000* *(Note b)*	Convertible notes reserve *HK$'000*	Capital reserve *HK$'000*	Asset revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Share-based payment reserve *HK$'000*	Exchange translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 October 2008 (as originally stated)	440,935	516,630	4	123,680	–	1,321	–	779	8,063	(192,867)	898,545	55,343	953,888
Restatement of prior periods and opening balances *(Note 3)*	–	–	–	24,440	–	–	–	–	–	(3,889)	20,551	1,403	21,954
At 1 October 2008 (as restated)	440,935	516,630	4	148,120	–	1,321	–	779	8,063	(196,756)	919,096	56,746	975,842
Loss for the year (as restated)	–	–	–	–	–	–	–	–	–	(175,299)	(175,299)	(137)	(175,436)
Other comprehensive (expense) income for the year	–	–	–	–	–	(1,321)	–	–	(770)	1,321	(770)	4,426	3,656
Total comprehensive expense for the year (as restated)	–	–	–	–	–	(1,321)	–	–	(770)	(173,978)	(176,069)	4,289	(171,780)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(11,384)	(11,384)
Placing of new shares	85,800	–	–	–	–	–	–	–	–	–	85,800	–	85,800
Transaction costs attributable to placing of new shares	–	(507)	–	–	–	–	–	–	–	–	(507)	–	(507)
Recognition of share-based payment expenses	–	–	–	–	–	–	–	26,357	–	–	26,357	–	26,357
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(6,318)	(6,318)	–	(6,318)
Appropriations	–	–	303	–	–	–	–	–	–	(303)	–	–	–
At 30 September 2009 (as restated)	526,735	516,123	307	148,120	–	–	–	27,136	7,293	(377,355)	848,359	49,651	898,010

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Statutory reserve *HK$'000* *(Note b)*	Convertible notes reserve *HK$'000*	Capital reserve *HK$'000*	Asset revaluation reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Share-based payment reserve *HK$'000*	Exchange translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 October 2009 (as originally stated)	526,735	516,123	307	123,680	698	-	-	27,136	7,348	(371,040)	830,987	47,915	878,902
Restatement of prior periods and opening balances *(Note 3)*	-	-	-	24,440	(698)	-	-	-	(55)	(6,315)	17,372	1,736	19,108
At 1 October 2009 (as restated)	526,735	516,123	307	148,120	-	-	-	27,136	7,293	(377,355)	848,359	49,651	898,010
Loss for the period	-	-	-	-	-	-	-	-	-	(46,404)	(46,404)	(2,366)	(48,770)
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	(580)	-	(580)	149	(431)
Total comprehensive expense for the period	-	-	-	-	-	-	-	-	(580)	(46,404)	(46,984)	(2,217)	(49,201)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,197)	(2,197)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	907	-	-	907	-	907
Issue of shares upon exercise of share options	2,652	1,744	-	-	-	-	-	(1,588)	-	-	2,808	-	2,808
Lapse of share options	-	-	-	-	-	-	-	(215)	-	215	-	-	-
Release upon cancellation of convertible notes	-	-	-	(60,210)	-	-	-	-	-	11,610	(48,600)	-	(48,600)
Appropriations	-	-	832	-	-	-	-	-	-	(832)	-	-	-
At 31 March 2010	529,387	517,867	1,139	87,910	-	-	-	26,240	6,713	(412,766)	756,490	45,237	801,727

Notes:

(a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.

(b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective joint ventures.

Notes

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

China Ground Source Energy Limited (the "Company") was incorporated in the Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report. The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 November 2001.

The principal activity of the Company is investment holding.

During the current financial period, the reporting period end date of the Group was changed from 30 September to 31 March to align the financial year end date of the Company with the fiscal year end date of the Inland Revenue Department of Hong Kong with the benefit of facilitating timely and efficient financial reporting. Details of which are set out in the Company's announcement dated 8 January 2010. Accordingly, the consolidated financial statements for the current period cover the six-month period from 1 October 2009 to 31 March 2010. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a twelve-month period from 1 October 2008 to 30 September 2009 and therefore may not be comparable with amounts shown for the current period.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, Renminbi ("RMB"). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

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

In the current period, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial period beginning on 1 October 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKAS 27 (Revised) requires that profit or loss and each component of other comprehensive income to be attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to the amendments, losses applicable to the non-controlling interests in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. The application of the amendments has no material effect to the Group in accordance with the transitional provisions set out in the amendments that an entity shall not restate any profit or loss attribution for reporting periods before the amendment is applied.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[5]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[3]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[4]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[2]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[4]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Amendments that are effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 consolidated financial statements.

3. PRIOR PERIOD ADJUSTMENTS

In preparing the current period's consolidated financial statements, the following comparative financial information has been restated:

(a) Deferred tax assets relating to allowance for doubtful debts on trade receivables of certain subsidiaries at the date of acquisition on 31 March 2008 had not been recognised. As a result, deferred tax assets and net asset value of the acquired subsidiaries had been understated by approximately HK$23,713,000 as at 31 March 2008. Accordingly, goodwill arising on acquisition of those subsidiaries on 31 March 2008 had been overstated by approximately HK$23,713,000 on that date and as at 30 September 2008 and 2009.

The Group's deferred tax assets in relation to allowance for doubtful debts on trade receivables had been understated by approximately HK$23,841,000 and HK$25,190,000 as at 30 September 2008 and 2009. The loss and total comprehensive expenses for the year ended 30 September 2008 and 2009 had been understated and overstated by approximately HK$1,275,000 and HK$1,404,000 respectively. The opening balances of equity as at 1 October 2008 has been overstated by approximately HK$1,275,000.

(b) Deferred tax liabilities of approximately HK$24,440,000 have been recognised in respect of discounted zero-coupon convertible notes as at issue date of the convertible notes. Subsequently, imputed interest expenses were recognised and accumulated to convertible notes and deferred tax liabilities were released accordingly. As relevant tax authority does not allow imputed interest for deduction for tax purposes, no temporary difference should have arisen from the discounted zero-coupon convertible notes and thus deferred tax liabilities should have not been recognised. As a result, as at 1 October 2008, deferred tax liabilities of approximately HK$21,826,000 have been overstated, convertible notes reserve of approximately HK$24,440,000 has been understated and accumulated losses of approximately HK$2,614,000 have been understated accordingly. In addition, income tax credit of approximately of HK$4,195,000 has been overstated for the year ended 30 September 2009 and deferred tax liabilities has been overstated by approximately HK$17,631,000 as at 30 September 2009.

(c) Amount of approximately HK$34,002,000 paid as a deposit for the acquisition of land use rights in the PRC during the year ended 30 September 2009 was included in other receivables under current assets as at 30 September 2009. As the underlying asset for which the deposit paid was non-current in nature, the corresponding amount should be separately classified as "deposit paid for acquisition of land use rights" shown under non-current assets. As a result, the amount had been reclassified from other receivables to deposit paid for acquisition of land use rights. This adjustment does not have any effect on the total equity as at 30 September 2009 and 1 October 2008 and the profit or loss for the year ended 30 September 2009.

(d) Government grant of approximately HK$698,000 received from the PRC government during the year ended 30 September 2009 had not been recognised as other operating income whereas it was directly credited to the capital reserve. As a result, loss for the year ended 30 September 2009 has been overstated by approximately HK$698,000 and equity as at 30 September 2009 has been overstated by approximately HK$244,000.

In accordance with the requirement of HKAS 1 (Revised), the Group shall present, as minimum, three statements of financial position, two of other statements and related notes when it makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. However, the Group has not presented the consolidated statement of financial position as at 1 October 2008 as a result of the above restatement as the directors are of the opinion that it would involve expense and delay out of proportion to the value to shareholders of the Group.

The effects of the prior period adjustments are summarised below:

Consolidated statement of comprehensive expense for the year ended 30 September 2009

	Year ended 30 September 2009				
	As previously reported *HK$'000*	Adjustment (a) *HK$'000*	Adjustment (b) *HK$'000*	Adjustment (d) *HK$'000*	As restated *HK$'000*
Increase in other operating income	28,446	–	–	698	29,144
Increase (decrease) in income tax credit	2,077	1,404	(4,195)	–	(714)
Decrease (increase) in loss for the year	(173,343)	1,404	(4,195)	698	(175,436)
Decrease (increase) in loss for the year attributable to:					
Owners of the Company	(172,873)	1,315	(4,195)	454	(175,299)
Non-controlling interests	(470)	89	–	244	(137)
	(173,343)	1,404	(4,195)	698	(175,436)
Decrease (increase) in loss per share (HK cents)					
– basic and diluted	(11.44)	0.09	(0.29)	0.03	(11.61)

Consolidated Statement of Financial Position

	As at 30 September 2009					
	As previously reported	**Adjustment (a)**	**Adjustment (b)**	**Adjustment (c)**	**Adjustment (d)**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Increase in deposit paid for acquisition of land use rights	–	–	–	34,002	–	34,002
Decrease in goodwill	585,433	(23,713)	–	–	–	561,720
Increase in deferred tax assets	–	25,190	–	–	–	25,190
Decrease in prepayments, deposits and other receivables	306,513	–	–	(34,002)	–	272,511
Decrease in deferred tax liabilities	(17,631)	–	17,631	–	–	–
(Decrease) increase in reserves	304,252	(15)	17,631	–	(244)	321,624
Increase in non-controlling interests	47,915	1,492	–	–	244	49,651

	As at 1 October 2008			
	As previously reported	**Adjustment (a)**	**Adjustment (b)**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Decrease in goodwill	906,862	(23,713)	–	883,149
Increase in deferred tax assets	–	23,841	–	23,841
Decrease in deferred tax liabilities	(21,826)	–	21,826	–
(Decrease) increase in reserves	457,610	(1,275)	21,826	478,161
Increase in non-controlling interests	55,343	1,403	–	56,746

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs 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 and by the Hong Kong Companies Ordinance.

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to customers, net of allowance for returns and trade discounts where applicable and services rendered as well as gross proceeds from trading of securities. An analysis of the Group's turnover for the period/year from continuing operations is as follows:

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
Sales and installment of shallow ground energy utilisation system	**154,339**	286,741
Maintenance services for shallow ground energy utilisation system	**6,154**	218
Gross proceeds from trading of securities	**1,830**	48,851
Dividend income	**–**	1,256
Sewage and marsh gas treatment income	**18,505**	28,608
	180,828	365,674

6. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 October 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's reportable 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 reportable segments.

The Group comprises the following reportable 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) Other segment – provision and sales of telecommunications network infrastructure solutions and network management solutions.

On 8 September 2009, the Group completed the disposal of Future Frontier Limited and its subsidiary which were engaged in the manufacturing and sale of communication cables and optical cables. Hence, this operating division is presented as discontinued operation during the year ended 30 September 2009. Details of the discontinued operation are set out in Note 10.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the six months ended 31 March 2010

	Shallow ground energy	**Environmental protection**	**Securities investment and trading**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
External sales	**160,493**	**18,505**	**–**	**–**	**178,998**
Segment profit (loss)	**57,952**	**(69,166)**	**(5,601)**	**(529)**	**(17,344)**
Share of profits of associates					**214**
Unallocated other revenue and income					**7,907**
Unallocated expenses					**(9,167)**
Finance costs					**(17,740)**
Loss before tax (continuing operations)					**(36,130)**

For the year ended 30 September 2009

	Shallow ground energy *HK$'000*	Environmental protection *HK$'000*	Securities investment and trading *HK$'000*	Others *HK$'000*	Total *HK$'000* (Restated)
REVENUE					
External sales	286,959	28,608	1,256	–	316,823
Segment profit (loss)	137,897	(167,254)	(67,607)	(638)	(97,602)
Share of losses of associates					(145)
Share of profit of a jointly controlled entity					19
Unallocated other revenue and income					475
Unallocated expenses					(49,814)
Finance costs					(26,011)
Loss before tax (continuing operations)					(173,078)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit or loss represents profit earned by or loss from each segment without allocation of share of results of associates, share of results of a jointly controlled entity, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000* (Restated)
Continuing operations:		
Shallow ground energy	**859,770**	1,081,811
Environmental protection	**23,468**	95,360
Securities investment and trading	**21,824**	47,403
Others	**1,382**	1,488
Total segment assets	**906,444**	1,226,062
Unallocated corporate assets	**278,198**	252,827
Consolidated assets	**1,184,642**	1,478,889

Segment liabilities

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000* (Restated)
Continuing operations:		
Shallow ground energy	**326,198**	385,021
Environmental protection	**10,336**	122,638
Securities investment and trading	**24,332**	26,162
Others	**570**	542
Total segment liabilities	**361,436**	534,363
Unallocated corporate liabilities	**21,479**	46,516
Consolidated liabilities	**382,915**	580,879

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, deferred tax assets, cash held at non-bank financial institutions, bank balances and cash and unallocated corporate assets; and

- all liabilities are allocated to reportable segments other than other loans, tax payable and unallocated corporate liabilities.

Other segment information

For the six months ended 31 March 2010

	Continuing operations					Discontinued operation	
	Shallow ground energy	**Environmental protection**	**Securities investment and trading**	**Others**	**Total**	**Transmission**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets *(Note)*	**50,967**	**266**	**–**	**–**	**51,233**	**–**	**51,233**
Depreciation and amortisation	**13,298**	**620**	**–**	**440**	**14,358**	**–**	**14,358**
Allowance for doubtful debts	**9,298**	**2,269**	**–**	**–**	**11,567**	**–**	**11,567**
Reversal of allowance for doubtful debts	**(18,907)**	**–**	**–**	**–**	**(18,907)**	**–**	**(18,907)**
Impairment loss on goodwill	**–**	**56,658**	**–**	**–**	**56,658**	**–**	**56,658**
Loss on disposal of property, plant and equipment	**–**	**1,320**	**–**	**–**	**1,320**	**–**	**1,320**
Impairment loss on property, plant and equipment	**–**	**23,178**	**–**	**–**	**23,178**	**–**	**23,178**
Gain on cancellation of convertible notes	**–**	**(13,953)**	**–**	**–**	**(13,953)**	**–**	**(13,953)**
Gain on disposal of financial assets at fair value through profit or loss	**–**	**–**	**(266)**	**–**	**(266)**	**–**	**(266)**
Gain on disposal of available-for-sale investments	**–**	**–**	**(13,234)**	**–**	**(13,234)**	**–**	**(13,234)**
Gain on disposal of subsidiaries	**(8,464)**	**(4,162)**	**–**	**–**	**(12,626)**	**–**	**(12,626)**

	Continuing operations					Discontinued operation	
	Shallow ground energy	**Environmental protection**	**Securities investment and trading**	**Others**	**Total**	**Transmission**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	**34,998**	**–**	**–**	**–**	**34,998**	**–**	**34,998**
Share of profits of associates	**(214)**	**–**	**–**	**–**	**(214)**	**–**	**(214)**
Interest income	**(143)**	**(60)**	**–**	**–**	**(203)**	**–**	**(203)**
Interest expenses	**3,611**	**14,129**	**–**	**–**	**17,740**	**–**	**17,740**
Income tax expense	**11,720**	**920**	**–**	**–**	**12,640**	**–**	**12,640**

For the year ended 30 September 2009 (Restated)

	Continuing operations					Discontinued operation	
	Shallow ground energy	Environmental protection	Securities investment and trading	Others	Total	Transmission	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets (Note)	45,232	11,526	–	–	56,758	–	56,758
Depreciation and amortisation	6,638	993	–	485	8,116	1,423	9,539
Allowance for doubtful debts	9,795	23	–	–	9,818	2,170	11,988
Reversal of allowance for doubtful debts	(4,204)	–	–	–	(4,204)	–	(4,204)
Impairment loss on goodwill	–	161,429	–	–	161,429	–	161,429
Gain on disposal of financial assets at fair value through profit or loss	–	–	(9,945)	–	(9,945)	–	(9,945)
Written off on inventories	64	–	–	–	64	–	64
Written off of property, plant and equipment	64	1,454	–	–	1,518	–	1,518
Loss on winding up of a jointly controlled entity	9,793	–	–	–	9,793	–	9,793
Gain on disposal of subsidiaries	(6,083)	–	–	–	(6,083)	(2,122)	(8,205)

	Continuing operations					Discontinued operation	
	Shallow ground energy	Environmental protection	Securities investment and trading	Others	Total	Transmission	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	34,694	–	–	–	34,694	–	34,694
Share of losses of associates	(145)	–	–	–	(145)	–	(145)
Share of profit of a jointly controlled entity	–	(19)	–	–	(19)	–	(19)
Interest income	(330)	(458)	–	–	(788)	(74)	(862)
Interest expenses	591	25,420	–	–	26,011	3,413	29,424
Income tax expense	714	–	–	–	714	–	714

Note: Non-current assets excluded those relating to discontinued operation and excluded goodwill, interest in associates, available-for-sale investments, non-current portion of other receivable and deferred tax assets.

Geographical information

The Group's operations are located in the PRC. All of the Group's revenue from external customers based on the location at which the services were provided or the goods were delivered and non-current assets are in the PRC.

Information about major customers

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the six months ended 31 March 2010 and the year ended 30 September 2009.

7. OTHER INCOME

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Continuing operations		
Bank interest income	**203**	788
Government grants *(Note a)*	**4,163**	3,846
Amortisation of deferred income on government grants	**1,495**	784
Consultancy fee income	**–**	432
Change in fair value of held-for-trading financial assets	**–**	500
Sale of raw materials	**5,824**	744
Recovery of bad debts written off	**–**	227
Compensation received *(Note b)*	**5,446**	17,043
Business tax refund	**–**	396
Others	**1,995**	180
	19,126	24,940

Notes:

(a) Government grants were received from the PRC government for the Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to those subsidies.

(b) Compensation was received from the PRC government as relocation compensation due to the implementation of infrastructure work.

8. FINANCE COSTS

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	**798**	591
Imputed interest expense on convertible notes	**14,129**	25,420
Interest paid to an associate	**2,813**	–
	17,740	26,011

9. INCOME TAX

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**9,340**	2,118
Under provision in prior year:		
Hong Kong Profits Tax	**899**	–
Deferred tax	**2,401**	(1,404)
	12,640	714

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the six months ended 31 March 2010 and year ended 30 September 2009.

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except as stated below, the tax rate of all the other PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the income tax rules and regulations of the PRC, a foreign investment subsidiary was recognised as high technology enterprise on 24 December 2008 and therefore is entitled to a preferential tax rate of 15% for three years, with effective from 1 January 2008.

10. DISCONTINUED OPERATION

On 30 June 2009, the Group entered into a sale agreement to dispose of an indirectly wholly-owned subsidiary of the Group, Future Frontier Limited ("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 an independent third party. The disposal was completed on 8 September 2009, on which date control of FFL passed to the acquirer.

The loss for the year ended 30 September 2009 from the discontinued operation is analysed as follows:

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
Loss of manufacturing and sale of communication cables and optical cables operation for the period/year	**–**	(3,766)
Gain on disposal of manufacturing and sale of communication cables and optical cables operation	**–**	2,122
	–	(1,644)

The results of the manufacturing and sale of communication cables and optical cables operation for the period from October 2008 to September 2009, which have been included in the consolidated income statement, were as follows:

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
Revenue	**–**	84,319
Cost of sales	**–**	(73,723)
Gross profit	**–**	10,596
Other income	**–**	2,888
Selling and distribution costs	**–**	(6,352)
Administrative expenses	**–**	(5,315)
Other operating expenses	**–**	(2,170)
Finance costs	**–**	(3,413)
Loss before tax	**–**	(3,766)
Income tax expense	**–**	–
Loss for the year	**–**	(3,766)

Loss for the year from discontinued operation including the following:

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Bank interest income	–	(74)
Cost of inventories sold	–	73,723
Depreciation of property, plant and equipment	–	1,342
Amortisation of prepaid lease payments	–	81
Staff costs (including directors' remuneration)	–	171
Allowance for doubtful debts	–	2,170

No tax charge or credit arose on loss on discontinuance of the operation.

The cash flows attributable to the discontinued operation are as follows:

Net cash used in operating activities	–	(18,409)
Net cash used in investing activities	–	(84,574)
Net cash from financing activities	–	25,000
Net cash outflow	–	(77,983)

11. DIVIDENDS

No dividend was paid or proposed during the six months ended 31 March 2010, nor has any dividend been proposed since the end of the reporting period (year ended 30 September 2009: Nil).

12. LOSS PER SHARE

For continuing and discontinued operation

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Loss		
Loss for the purpose of basic and diluted loss per share	**(46,404)**	(175,299)

	Six months ended 31 March 2010 *'000*	Year ended 30 September 2009 *'000* (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,688,792**	1,510,470

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the consolidation of shares on 1 February 2010.

For the six months ended 31 March 2010 and the year ended 30 September 2009, the computation of diluted loss per share does not assume the exercise of the Company's share options and convertible notes since their exercise would result in a decrease in loss per share from operation.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Loss for the period/year attributable to owners of the Company	**(46,404)**	(175,299)
Less: loss for the year from discontinued operation	**–**	(1,644)
Loss for the purpose of basic and diluted loss per share from continuing operations	**(46,404)**	(173,655)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operation

For the year ended 30 September 2009, basic loss per share for the discontinued operation is HK$0.11 cents per share (six months ended 31 March 2010: Nil). The computation of diluted loss per share for the year ended 30 September 2009 does not assume the exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible notes since the exercise of share options and conversion of convertible notes would result in a decrease in the loss per share.

13. TRADE AND RETENTION RECEIVABLES

	31 March 2010 HK$'000	30 September 2009 HK$'000
Trade and retention receivables	**82,023**	72,231
Less: allowance for doubtful debts	**(13,504)**	(22,942)
	68,519	49,289

The Group allows an average credit period ranging from 30 to 180 days, and more than 365 days to its trade receivables and retention receivables respectively. The following is an aged analysis of trade and retention receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting date.

	31 March 2010 HK$'000	30 September 2009 HK$'000
Within 90 days	**24,218**	16,053
91 to 180 days	**11,452**	11,724
181 to 365 days	**32,797**	20,787
Over 365 days	**52**	725
	68,519	49,289

Included in the Group's trade and retention receivable balances were debtors with aggregate carrying amount of approximately HK$8,426,000 (30 September 2009: HK$725,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances.

The ageing of trade and retention receivables which were past due but not impaired is as follows:

	31 March 2010 HK$'000	30 September 2009 HK$'000
181 to 365 days	**8,374**	–
Over 365 days	**52**	725
	8,426	725

The Group's neither past due nor impaired trade and retention receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

Allowance in respect of trade and retention receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the allowance is written off against trade or retention receivables balance directly. The movement in the allowance for doubtful debts is as follows:

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000*
Balance at beginning of the period/year	**22,942**	17,280
Exchange adjustments	**171**	48
Impairment losses recognised on receivables	**9,298**	11,988
Impairment losses reversed	**(18,907)**	(4,204)
Disposal of a subsidiary	**–**	(2,170)
Balance at end of the period/year	**13,504**	22,942

Included in the allowance for trade and retention receivables were individually impaired trade and retention receivables with an aggregate balance of approximately HK$13,504,000 (30 September 2009: HK$22,942,000) which have been placed in severe financial difficulties. The Group did not hold any collateral over these balances.

14. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000*
Within 90 days	**14,001**	37,509
91 to 180 days	**20,318**	20,767
181 to 365 days	**9,318**	13,013
Over 365 days	**40,476**	23,606
	84,113	94,895

The average credit period on purchases of goods is from 90 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

The Directors would like to draw your attention to the fact that the independent auditors' report on the consolidated financial statements of the Group for the six months ended 31 Mach 2010.

Basis for qualified opinion

(a) Limitation of scope affecting opening balances

The consolidated financial statements of the Group for the year ended 30 September 2009 were audited by HLB Hodgson Impey Cheng who issued an auditor's report dated 30 December 2009 with a "disclaimer opinion" on the consolidated financial statements of the Group for the year ended 30 September 2009 (the "2009 Auditor's Report") with scope limitations based on reasons summarised in the basis for disclaimer of opinion paragraphs therein.

We were not able to obtain sufficient reliable evidence to enable us to assess the scope limitations for the year ended 30 September 2009. Any adjustments found to be necessary to the opening balances as at 1 October 2009 may affect the results and related disclosures in the notes to the consolidated financial statements of the Group for the period ended 31 March 2010. The comparative figures for the year ended 30 September 2009 shown in these consolidated financial statements may not be comparable with the figures for the current period.

(b) Goodwill

As mentioned in the Company's 2009 Auditor's Report, the relationship between 湖南衡興環保科技開發有限公司 ("Hengxing") and the Group could not be ascertained due to insufficient information. According to the result of a special investigation conducted by an independent professional firm as initiated by the board of the directors of the Company for the purpose of, among other things, ascertaining the relationship between the Group and Hengxing, Hengxing was found being a limited company established in the People's Republic of China on 23 February 2006 and held by a wholly owned subsidiary of the Company, Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as to 70% of its equity interest; therefore a subsidiary of

Shenzhen Lisai as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group") on 7 November 2007. Subsequently, Shenzhen Lisai disposed of all the equity interests in Hengxing it held on 27 August 2009.

Included in "goodwill" as shown on the consolidated statement of financial position of the Group as at 30 September 2009 was goodwill with carrying amount of approximately HK$56,658,000 arising from acquisition of Lisai Group, which was fully impaired during the six months ended 31 March 2010.

We were unable to perform any audit procedures to satisfy ourselves as to the accuracy of the carrying value of the net assets of Hengxing, at the date of acquisition of Lisai Group on 7 November 2007 included in the calculation of goodwill arising from acquisition of Lisai Group, and its net assets' carrying value at the date of disposal of its equity interests by Shenzhen Lisai on 27 August 2009. Any adjustments to the figure would have a consequential effect on the consolidated results of the Group after consolidation of Hengxing from the date of acquisition of Lisai Group to the date of disposal of Hengxing for the prior periods, the gain or loss on disposal of Hengxing in the year ended 30 September 2009, the carrying value of goodwill as at 30 September 2009 and the impairment loss of HK$161,429,000 and HK$56,658,000 recognised for the year ended 30 September 2009 and the six months ended 31 March 2010 respectively.

(c) Presentation of consolidated financial statements

As disclosed in Note 3 to the consolidated financial statements, the Group has made various prior period adjustments during the current reporting period which involved retrospective restatement of certain items in its consolidated financial statements as well as reclassification of certain item therein. In accordance with the requirement of Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants, the Group shall present, as a minimum, three consolidated statements of financial position. The board of directors of the Company does not present the consolidated statement of financial position as at 1 October 2008, which constitutes a departure from Hong Kong Financial Reporting Standards.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Company changed its financial year end from 30 September to 31 March. Consequently, reporting period for this fiscal year covers 6 months from 1 October 2009 to 31 March 2010 (the "Period") and all percentages are comparing a six-month period to twelve-month period.

The following table provides brief summary of our Company's financial operations. For more detailed information, please refer to the consolidated financial statements for the year ended 31 March 2010 and 30 September 2009.

	(6 months) From 1 October 2009 to 31 March 2010		(12 months period) From 1 October 2008 to 30 September 2009 (Restated)	
	HK$'000	*%*	*HK$'000*	*%*
Continuing operations:				
Turnover:				
– Sales and installment of shallow ground energy utilisation system	**154,339**	**85**	286,741	63
– Maintenance services for shallow ground energy utilisation system	**6,154**	**4**	218	1
– Sewage and marsh gas treatment income	**18,505**	**10**	28,608	5
– Dividend income	**–**	**–**	1,256	1
Total revenue from continuing operations:	**178,998**	**99**	316,823	70
– Gross proceeds from trading of securities	**1,830**	**1**	48,851	11
	180,828	**100**	365,674	81
Discontinued operations:				
Turnover:				
– Sales of communication cables and optical cables	**–**	**–**	84,319	19
Total turnover from continuing and discontinued operations:	**180,828**	**100%**	449,993	100%

	HK$'000	*HK$'000*
Loss for the period/year	**48,770**	175,436

Turnover

Total revenue from continuing operations for the Period were approximately HK$179 million, as compared with HK$317 million for the year ended 30th September 2009. As a percentage of total revenues from continuing operations, our total cost of sales for the Period were 75% compared to 69% for the year ended 30 September 2009. The increase is primarily due to an increase in our principal costs of labor, material, construction and transportation costs in existing projects which affected our profit margin. We may not be able to increase our revenue enough to offset the increase cost because certain long-term agreements do not allow us to escalate project pricing to compensate for increased project costs. Some of these expenses are not regular basis and this may results in fluctuations in our expenses and results of operations for individual projects from year to year.

Revenues generated from the construction of shallow ground source energy are recognised using the percentage of completion method. The percentage of completion method requires estimates of future costs over the full term of project delivery. Such costs estimates are made by management based on prior operations and specific project characteristics and designs. If management's estimates of total estimated costs are inaccurate, then the percentage of completion is inaccurate resulting in an over or under-estimate of profit margins. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less than annually for all others, or when circumstances change and warrant a modification to a previous estimate. Changes in project condition, performance or estimated profitability, may result in revisions to costs and revenues and are recognised in the period in which the revisions are determined. Provisions for estimated losses relating to contracts are made in the period in which such losses are determined.

During the period under review, the Company incurred a loss of approximately HK$49 million compared with a loss of approximately HK$175 million for the year ended 30 September 2009. The decrease in our net loss during 2010 from 2009 was primarily due to the 2009 impairment of HK$161 million in respect of goodwill and share based compensation expenses of HK$26 million.

However, due to the financial market and economic events that occurred, the Company performed an impairment test for goodwill resulted in a noncash goodwill impairment charge of approximately HK$57 million for year 2010.

Impairment loss on property, plant and equipment in the amount of approximately HK$23 million was made mainly resulted from the continuing deterioration and declining operating scale of the sewage and marsh gas segment, and significantly reduced the recoverable amounts of the fixed assets which is lower than their carrying value.

Despite increased competition from other power generation industry, we believe that shallow ground energy utilisation will emerge as the preferred source of renewable energy.

Gross Profit Margin

Gross profit, defined as the differences between revenue and cost of good sales, of approximately HK$45 million for the Period under review compared to HK$99 million of year ended 30 September 2009 (restated). The gross profit margin of the Company decreased from 31% (2009) to 25% (2010) due to higher material and freight costs.

Other Income

Other income are non-recurring in nature and representing 11% and 8% of total revenue from continuing operations for the period ended 31 March 2010 and year ended 30 September 2009 (restated), respectively.

Further information regarding the Company's other income may be referred to note 7, "Other Income" to the consolidated financial statements of this announcement.

Selling & Distribution Costs and Administrative Expenses

	(6 months period) From 1 October 2009 to 31 March 2010		(12 months period) From 1 October 2008 to to 30 September 2009	
Selected information	***HK$'000***	***% of revenue***	*HK$'000*	*% of revenue*
Administrative expenses:				
Share based payment expenses	**907**	**0.5**	26,357	8.3
Minimum lease payments under operating leases in respect of land and buildings	**3,831**	**2.1**	8,137	2.6
Director Remuneration	**3,480**	**1.9**	16,940	5.3

Total selling and distribution costs were approximately HK$6 million and HK$12 million for the Period ended 31 March 2010 and year ended 30 September 2009, respectively.

Administrative expenses were approximately HK$43 million and HK$105 million, or as a percentage of revenue, decreased to 24% from 33% for the Period ended 31 March 2010 and year ended 30 September 2009, respectively.

Segmental Information

The Company reportable operating segment consists of shallow ground energy utilization, environmental protection and securities investment and trading segment. The Company's transmission segments were moved into discontinued operations for reporting purposes in last financial year ended 30 September 2009 with the disposal of the operations.

Further information regarding the Company's operating segments may be referred to note 5, 'Segment Information' to the consolidated financial statements of this announcement.

Financial Resources and Liquidity

	(6 months period) 31 March 2010	(12 months period) 30 September 2009 (restated)
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**71,446**	11,180
Net cash outflow from investing activities	**(52,723)**	(72,957)
Net Cash inflow from financing activities	**3,045**	59,674

Our principal sources of liquidity have been derived from cash from operations, proceeds from parent company loans, third party debt in the form of borrowing under credit facilities and the issuance of our common stock in public offerings.

Net cash inflow from operating activities was approximately HK$71 million for the Period ended 31 March 2010 compared to net cash inflow from operating activities of approximately HK$11 million for the year ended 30 September 2009 (restated). The changes in cash provided by operating activities are primarily due to expansion of our business, the timing of payments received for accounts receivable, the timing of payment for accounts payable and income taxes. In most cases, we bill our customers for our products and services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customer's cash flow from operations and their access to their credit markets. If our customers delay in paying or fail to pay us a significant amount of outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations and financial positions.

Cash used in investing activities was approximately HK$53 million and HK$73 million for the Period ended 31 March 2010 and the year ended 30 September 2009 (restated), respectively. Cash used in investing activities consist primarily of cash used for fixed asset additions for all period presented, net of cash received from disposal of available-for sale shares, disposal of fixed assets and disposal of subsidiaries.

Cash provided by financing activities was approximately HK$3 million and HK$60 million for Period ended 31 March 2010 and the year ended 30 September 2009 (restated), respectively. We are awarded government grant that contribute HK$13 million cash to our Company, towards shallow ground energy utilization and marsh gas treatment activities.

Charges on Group Assets

As at 31 March 2010, no Group assets have been charged.

Exposure to Fluctuation in Exchange Rates

The Company's reporting currency is in Hong Kong dollars and 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 minimize exposure to foreign exchange risks.

As at 31 March 2010, 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, decreased to 19% for the period under review (2009: 31%).

Employees

As at 31 March 2010, the Company employed approximately 600 people (2009: approximately 610). The Group remuneration policy is built on principles of equality, motivating, performance-related and market-competitive remuneration packages to employees.

The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Company. In addition, discretionary bonuses will be paid to staff based on individual and the Company's performance.

Based upon the geographic diversification of these employees, we believe any risk of loss from employee actions would not be material to the conduct of our operations taken as a whole.

Share option Schemes

The Company has a share option that provides for the issuance of options to its directors, officers and employees. During the Period under review, 8,500,000 share options were exercised at the price of HK$0.3304 per share option for an aggregate gross proceeds of approximately HK$2.8 million.

The detailed disclosures relating to the Company's share option scheme are set out in note 48(b) to the consolidated financial statements of the latest Company's Annual Report for the period ended 31 March 2010.

Contingent Liabilities

As at 31 March 2010, the Company did not provide any form of guarantees for any outside companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

Dividend

The Board resolved not to declare a final dividend for the Period under review (2009: Nil).

Capital Structure

	(6 months period) 31 March 2010 *HK$'000*	(12 months period) 30 September 2009 *HK$'000*
Convertible notes	**145,919**	257,143
Imputed Interest	**14,129**	25,420

The convertible notes represent the liability component of the outstanding convertible notes which were issued to the vendor by the Company in 2007 and 2009 as part of the consideration to acquire the environmental protection and shallow ground energy segment respectively. The decrease in the liability component of convertible notes was due to cancellation and subsequent commencement of legal proceedings against the vendor as per our announcement dated 1 April 2010.

The imputed interest for the Period under review of convertible notes amounted to approximately HK$14 million. (2009: HK$25 million)

On 30 December 2009, the Board proposed capital reorganisation and was approved by the shareholders of the Company on 1 February 2010 AGM. The capital reorganisation become effective on 2 February 2010, upon which (i) that every four existing shares in the issued and unissued share capital of the Company be consolidated into one consolidated share and (ii) to increase the authorized share capital of the Company from US$80,000,000 comprising 2,000,000,000 consolidated shares to US$160,000,000 comprising 4,000,000,000 consolidated shares by authorising an additional 2,000,000,000 unissued consolidated shares.

For more details on the Share consolidation and increase in authorized share capital, please refer to the Company announcement dated 30 December 2009 and poll results of AGM published on the GEM website on 1 February 2010.

Capital Commitment and Substantial Investments

Details of capital commitment are set out in note 47 to the consolidated financial statements of the latest Company's Annual Report for the period ended 31 March 2010.

Future Plans for Substantial Investments of Capital Asset

Our Company anticipates that it will be necessary to make substantial capital expenditures for the development and operation of its shallow ground source energy segment in the future. There can be no assurance that debt or equity financing, or cash generated by operations, will be sufficient to meet future investment programs. It is anticipated that the Group may enter into transactions financed partially or wholly with debt, which may increase CGS's debt levels.

In the normal course of business, the Company evaluates properties for potential acquisitions or disposals which, if appropriate, would be presented to the Board for consideration. The Company will continue to explore new opportunities in energy-related projects and look for potential investments in the PRC and overseas.

On 11 May 2010, two cooperation agreements between the Company subsidiaries with the Government of Wafangdian City for constructing an ecological low-carbon model district in the coastal economic area of Wafangdian City; and the promotion of ground source energy heat pump systems as an alternative source of energy for the heating energy systems. For more details of the signing of cooperation agreement, please refer to the Company announcement published on the GEM website dated 14 May 2010.

On 21 May 2010, the Investor and the Company subsidiaries, BE Ever Source, entered into a conditional Joint Venture Cooperation Agreement, pursuant to which the Investor has agreed to make a total capital investment of RMB26,804,004.33 (equivalent to approximately HK$30,288,524.89) into Beijing Enterprise Hot Pump (BEHP), an indirect wholly-owned subsidiary of the Company. Upon completion of the investment, BEHP will cease to be a subsidiary of the Company and will be owned as to 51% by the investor and 49% by BE Ever Source. For more details of the agreement, please refer to the Company announcement published on the GEM website dated 24 May 2010.

Major Acquisition and Disposals

Details of major acquisition and disposal transaction are set out in note 43 and 44 to the consolidated financial statements of the latest Company's Annual Report for the period ended 31 March 2010.

BUSINESS REVIEW AND OUTLOOK

Shallow Ground Energy Utilisation

In 2010, HYY has been expanding our substitute energy business, with a focus on three problems regarding the fast development of the application of ground source energy as substitute energy for heating: (i) to improve the replicable large-scale promotion pattern; (ii) to mass-produce the equipments for ground source energy collection and refining (heat pump) through Single-well Circulation Heat Exchange with stable quality and good price; (iii) be in a great need to establish the maintenance guaranty system to facilitate effective heating services by utilisation of ground source energy. Meanwhile, HYY has made great efforts to improve the replicable large-scale promotion pattern, gradually evolving from the traditional single-building order pattern into source energy management contracts and becoming part of the urban heating infrastructure, so as to realise the replicable large-scale development. Details are set out below:

Promotion and Operation Patterns by way of Investment

	EPC Model	**Heat-power Model**	**Virtual Power Plant Model (urban heating infrastructure)**
Investor	Project owner	EPC contractor	Third party investor
Contractor	EPC contractor (with an object to earn one-off profits arising from the project construction and sales of relevant machines and equipments)	EPC contractor (with an object to earn long-term operating revenue from a single project)	Third party investor (with an object to earn economy of scale and long-term operating revenue from several projects)
Operator	Property management company or other companies entrusted by the project owner	EPC contractor or institutes such as entrusted property management company by way of source energy management contracts	Professional operation company established by third party investor
Right of charge	Project owner	EPC contractor	Third party investor
Ownership	Project owner	EPC contractor	Third party investor
Risk bearer	Project owner	EPC contractor	Third party investor

	EPC Model	Heat-power Model	Virtual Power Plant Model (urban heating infrastructure)
Major advantages	Compliant with the conventional thinking, simple relationship among all the parties, and easy for operation	1. enhance the initiatives of the project owner	1. reduce investment and management costs for implementation of energy-saving projects
		2. balance the supply and consumption of heat and the relationship among investment, construction and operation	2. easy to obtain project financing from banks and other financial institutions
		3. provide best services for the customers	3. easy to obtain government support and assistance from CDM
		4. maximize the energy-saving effect with the least investment	4. help to promote the application of ground energy heat pump technology in large scale with obvious effects in environmental protection and social benefits
Major disadvantages	Unable to compromise the quality and price	Franchise contract is relatively complicated and more difficult to conclude and execute.	Third party investor operates only for profits, thus the period from negotiation to execution of agreement is longer.

EPC stands for engineer, procure, construct

HYY, together with the relevant industries and management authorities, also participated in the compilation of Beijing's local standard "Wells for Ground Source Energy Collection Through Single-well Circulation Heat Exchange" so as to lay a solid foundation for the scale development of ground source energy as substitute energy for heating.

Those efforts are expected to be significant to the Company's development in the next year and even in longer term.

Environmental Protection

In 2010, Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai"), a company principally engaging in the business of environmental protection, has made a successful bid to acquire the management right of Xiaping landfill site. By taking over the landfill gas collection system of Xiapieng landfill site and through, among other initiatives, increasing the number of gas wells, gas well optimization and gas well maintenance, Shenzhen Lisai is able to further increase the amount of gas and maintain the volume of gas collection in order to increase the volume of certified emission reductions ("CERs") accordingly.

As to the CDM project of Xiaping landfill site managed by Shenzhen Lisai, the monthly amount of CERs maintains stable at a level of over 30,000 tons in 2010. However, as the CERs transactions of the Company are denominated in Euro and the price fluctuates with the development of the market condition, such transactions are significantly exposed to the fluctuation of Euro exchange rates and the market price of CERs.

Guanlan River sewage treatment project is operating steadily and the water quality after processing has reached the relevant requirement. The Company's operation contract will expire by the end of 2010 and the Company shall rebid for the operation right of the project.

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 (November 2005)" 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 project will resolve the disposal problem of massive amount of ash generated from incineration, setting an example in the PRC. Currently, 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 business growth point 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.

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 six months period ended 31 March 2010, except that:

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. During the period under review, no directors was appointed.

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 final results for the six months ended 31 March 2010 and has provided advice and comments thereon. The Audit Committee held four meetings during the period under review.

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 period under review, 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 period under review.

As at the date of this announcement, 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, 29 June 2010