2008/09
ANNUAL REPORT

CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

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Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Chan Wai Kay Katherine
Xu Shengheng
Wu Shu Min
Soo Kim Fui Jeffrey

Non-executive director

Fu Hui Zhong

Independent non-executive directors

Chan Man Kuen Laura
Jia Wenzeng
Chow Wan Hoi Paul

REGISTERED OFFICE

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Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

COMPLIANCE OFFICER

Wu Shu Min

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Chow Wan Hoi Paul
Chan Man Kuen Laura

REMUNERATION COMMITTEE

Chan Man Kuen Laura *(Chairman)*
Chow Wan Hoi Paul
Jia Wenzeng

AUTHORISED REPRESENTATIVES

Wu Shu Min
Wong Lai Yuk

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
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P.O. Box 609
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen's Road East
Hong Kong

LEGAL ADVISER

Kirkpatrick & Lockhart Preston Gates Ellis Solicitors
35th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31st Floor
Gloucester Tower
The Landmark
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Central
Hong Kong

STOCK CODE

8128

COMPANY WEBSITE

www.iini.com

Chairman's Statement

To all Shareholders,

On behalf of the Board, I would like to thank all the shareholders and investors very much for their trust and support in China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively referred to as "CGS" or the "Group") in the past. I hereby report to all the shareholders on the results of the Group for the year ended 30 September 2009 (the "Year").

During the Year, the Company recorded a loss attributable to equity holders of the Company of HK$173 million, and the Group recorded a significant increase in turnover from continuing operations of 134% to HK$326 million.

The Group has totally withdrawn from the telecommunications industry after it has successfully disposed of the transmission business over the past year. In the future, the Company will endeavour to focus on the development of new energy and environmental related industries. However, as the disposal of the transmission business was completed in August this year, the results of the transmission business are still required to be consolidated in this year's consolidated financial statements.

The loss for the Year was attributable to some financial provisions and write-offs of the Group which are non-operating in nature. Excluding the relevant factors, the Group's operational performance was quite satisfactory for the Year, with the shallow ground energy utilisation business even performing better in particular.

Benefited from the current inclination and support of China policy towards environmental protection industry, it's expected that there's huge potential for the development of the Group's businesses. As a result of the rise in energy prices, exhaustion of conventional energy sources and grave worldwide concerns about the global warming issue, renewable energy has become a top priority industry in China. Accordingly, China's investments in renewable energy are expected to grow exponentially in size and in intensity. Shallow ground energy is also regarded by China as an important renewable energy, and the Group's shallow ground energy utilisation business is developing exactly along with the national policy.

China is a big nation boasting of a tremendous amount of construction projects underway, where the annual gross floor area under construction totals about 2 billion square meters. Hence it is also one of the priorities to implement an energy-saving plan for building constructions. During the year, the Ministry of Finance and the Ministry of Housing and Urban-Rural Development of China has announced that construction of property demonstration projects with application of renewable energy will be carried out in cities. Based on counties as a unit, the demonstration will be promoted in rural areas. According to the Chinese Ministry of Land Resources, 19.87 million tons of carbon dioxide emissions were reduced last year in China through the development and utilisation of shallow ground energy. It is anticipated that in the next five years, China will step up the development and utilisation of shallow ground energy in the construction sector to further encourage energy conservation and emission reduction.

In view of this, the Group also made a strategic adjustment by carrying out a demonstration in a piece of land in Wafangdian City, Dalian, for which its subsidiary Beijing Enterprises Ever Source (Hong Kong) Limited has won the bid, on the construction of an eco, low-carbon property project primarily using shallow ground energy as an alternative energy for cooling and heating in the hope that the utilisation of shallow ground energy can be extended to different areas and the Group's business can also be extended to the construction of energy-saving buildings through the demonstration project. It is believed this move will help broaden the Group's business base and also offer a chance for the Company to grow at a high speed.

It is believed a good foundation has been laid for the Group to move into the field of energy-saving buildings with HYY's unique core technology in single well circulation ground heat exchange, combined with the Company's previous experience in shallow ground energy utilisation. It is believed the Group's profitability will be substantially enhanced by integrating patented technology, construction and market into a single business. In the future, the Company will endeavour to build up a professional team to carry out in-depth planning and design of energy-efficient buildings, aiming to build a successful eco, low-carbon real property.

Chairman's Statement

With respect to the Group's another environmental protection business operated by Shenzhen Lisai Industrial Development Co., Ltd ("Shenzhen Lisai"), the development of Clean Development Mechanism ("CDM") project in its landfill site is relatively lower than expected mainly because it takes more time than expected as well as it's more complicated for the certification procedures for Certified Emission Reductions ("CERs"), which has therefore affected our revenue. During the Year, the Company increased investment by adding new gas wells so that the actual gas production has improved over last year. However the Company believes the business still has room for improvement, and hopes the operation will be modified and optimized in the future so that there will be a breakthrough in the growth of the CDM business, making the business become another growth momentum in the Group's revenue and profit. The Group believes this business will continue to benefit under China's national policy consistently devoted to reducing global greenhouse gas emissions.

Since the prices in raw materials for sludge treatment have been rising and the processing fees offered by the government has remained unchanged for many years, the profit from Shenzhen Lisai's sewage treatment business for Guanlan River was also under pressure during the Year.

The ash treatment project, another project for which Shenzhen Lisai is applying for approval, is now still pending approval from relevant governmental departments. To date, environmental assessment is under way. This project will formally commence production upon approval. It is believed this business can also bring a new source of revenue into the Group.

The global economy is believed to remain volatile in the coming year. The Group will continue to carry out the further development of the Company's businesses in a prudent approach and will make the greatest endeavours to seize opportunities in the hope that the Group can create a greater value for the Company's shareholders under this challenging economic environment.

In addition, the Company will also endeavour to improve operational efficiency and strengthen management, aiming to deliver better performance in the coming year.

The Group will also seek to enhance the Company's corporate governance standards in order to improving their corporate governance structure and system so that the Company has effective and sound management for the protection of the interests of all the shareholders during its development.

I would like to take this opportunity to express my sincere gratitude to all shareholders, business partners and clients and to thank all the staff for their hard work and all the directors for their valuable comments and contributions to the Company.

Sincerely

Chan Wai Kay Katherine
Chairman

Hong Kong, 30 December 2009

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	20	41
	100	100

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.

Management Discussion and Analysis

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 9, 'Segment Information' to the consolidated financial statements of this report.

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 this report.

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.

Management Discussion and Analysis

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. Details of the share options plan are set out in Note 40(b), 'Share Option Plan' to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at the date of this report, 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 this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

As at the date of this report, 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 and announcement dated 7 August 2009.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Biography of Directors

Ms. Chan Wai Kay Katherine (“**Ms. Chan**”), aged 50, the chairman of the Board and executive Director of the Company, holds a Bachelor degree of Business Administration from the University of Southern California. Ms. Chan has more than 20 years of experience in financial services industry and holds type 1&2 licenses under the SFO. Ms. Chan has extensive experience in supervising initial public offerings and other fund raising exercises conducted by companies in Asia.

Mr. Xu Shengheng (“**Mr. Xu**”), aged 47, the chief executive officer and executive Director of the Company. Mr. Xu holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has over 11 years of experience in the promotion, research and development of shallow ground energy as alternative energy for heating. The single well circulation ground heat exchange technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

Mr. Wu Shu Min (“**Mr. Wu**”), aged 46, an executive Director of the Company, has over 21 years experience in the PRC telecommunications industry, and started his career in the Science Research Institute of Hunan Telecommunications in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as its China representative before he established Hunan Internet Information Networks Company Ltd. in 1997.

Mr. Soo Kim Fui Jeffrey (“**Mr. Soo**”), aged 38, the chief financial officer and an executive Director of the Company, is a fellow member of Association of Chartered Certified Accountants (UK). Mr. Soo has over 10 years of experience in accounting and financial aspects.

Mr. Fu Hui Zhong (“**Mr. Fu**”), aged 49, the non-executive Director of the Company, obtained a Bachelor’s Degree in Science and completed MBA core courses in Shanghai Jiao Tong University. He held key position in various IT companies in the PRC. He has intensive experience in operating resources consolidation and business management.

Ms. Chan Man Kuen Laura (“**Ms. Laura Chan**”), aged 36, an independent non-executive Director, the chairman of remuneration committee and member of audit committee of the Company, holds a bachelor degree in law. Ms. Laura Chan has over 9 years of experience in corporate administration aspect.

Mr. Jia Wenzeng (“**Mr. Jia**”), aged 66, an independent non-executive Director, the chairman of audit committee and member of remuneration committee of the Company, has been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Mr. Chow Wan Hoi Paul (“Mr. Chow”), aged 53, an independent non-executive Director and members of the audit committee and remuneration committee of the Company, has significant experience in accounting and finance and has been an Associate of the Institute of Chartered Accountants in England and Wales since 1983 and an Associate of the Institute of Chartered Accountants in Australia since 1988 and is a member of the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 42 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 30 September 2009 by business segments are set out in note 9 to the consolidated financial statements.

RESULTS

The Group's profit for the year ended 30 September 2009 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 29 to 32.

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.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the last five financial years are set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 30 September				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note)	
Turnover	**409,831**	235,037	117,647	71,013	60,069
(Loss)/profit before income tax	**(175,420)**	10,365	4,420	(13,232)	(86,334)
Income tax credit/(expense)	**2,077**	455	(1,153)	(1,056)	(240)
(Loss)/profit for the year	**(173,343)**	10,820	3,267	(14,288)	(86,574)
Attributable to:					
Equity holders of the Company	**(172,873)**	9,170	2,594	(16,204)	(82,097)
Minority interests	**(470)**	1,650	673	1,916	(4,477)
	(173,343)	10,820	3,267	(14,288)	(86,574)

Assets, liabilities and minority interests

	As at 30 September				
	2009	2008	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note)	
Total assets	**1,477,412**	1,553,875	228,456	60,448	75,502
Total liabilities	**(598,510)**	(599,987)	(81,563)	(72,178)	(80,179)
Minority interests	**(47,915)**	(55,343)	(16,125)	(10,195)	(7,981)
Equity attributable to equity holders of the Company	**830,987**	898,545	130,768	(21,925)	(12,658)

Note: Certain comparative figures have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 October 2005.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 39 and 40 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a prorata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and to the best knowledge of the directors of the Company, at least 25% of the Company's total issued share capital were held by the public as at the date of this report.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 41 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 30 September 2009, the Company's reserve available for distribution amounted to HK$216 million after net off the accumulated losses of the Company. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 September 2008, the Company did not have any reserves available for distribution as at 30 September 2008.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 34% of the total sales for the year and sales to the largest customer included therein amounted to approximately 13%. Purchases from the Group's five largest suppliers accounted for approximately 16% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 6%.

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and/or its five largest suppliers during the year.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ms. Chan Wai Kay Katherine	(first appointed on 6 February 2009 and subsequently removed and re-appointed on 25 March 2009)
Mr. Xu Shengheng	(first appointed on 6 February 2009 and subsequently removed and re-appointed on 25 March 2009)
Mr. Wu Shu Min	(removed and re-appointed on 25 March 2009)
Mr. Soo Kim Fui Jeffrey	(first appointed on 6 February 2009 and subsequently removed and re-appointed on 25 March 2009)
Mr. Xu Zhi Feng	(ceased on 6 February 2009)
Ms. Cheung Kwan	(appointed on 6 February 2009 and removed on 25 March 2009)

Non-executive directors:

Mr. Fu Hui Zhong	(appointed on 25 March 2009)
Mr. Lu Chuan	(ceased on 25 March 2009)

Independent non-executive directors:

Ms. Chan Man Kuen Laura	(first appointed on 6 February 2009 and subsequently removed and re-appointed on 25 March 2009)
Mr. Jia Wenzeng	(appointed on 25 March 2009)
Mr. Chow Wan Hoi Paul	(appointed on 1 May 2009)
Mr. Liu Yang	(resigned on 17 December 2008)
Mr. Chiu Chun Kit Calvin	(appointed on 6 February 2009 and resigned on 1 May 2009)
Mr. Zhang Lai	(ceased on 6 February 2009)
Ms. Cai Xin	(ceased on 25 March 2009)

Note: In accordance with articles 86 and 87 of the Company's articles of association, each of Messrs. Fu Hui Zhong, Jia Wenzeng and Chow Wan Hoi Paul, will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company had received confirmation of independence from each of the independent non-executive director pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers that the independent non-executive directors to be independent.

BIOGRAPHY OF DIRECTORS

Biographical details of the directors of the Company are set out on page 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 16 and 50 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

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

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	**Capacity**	**Interests in shares**	**Approximate percentage of interests in shares**	**Interests under equity derivatives**	**Aggregate interests**	**Approximate percentage of the aggregate interests**
Ms. Chan Wai Kay Katherine *(Note 1)*	Beneficial owner	–	–	55,000,000		–
	Interest of spouse	40,296,000	0.71%	–	95,296,000	1.41%
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		
	Interest of spouse	2,808,000	0.04%	–		
	Interest of controlled corporation	–	–	680,000,000	1,794,856,000	26.59%

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.

Report of the Directors

(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	7 March 2002 to 21 December 2011	0.465	10,000,000
	5 June 2003	5 June 2003 to 21 December 2011	0.078	3,000,000
	23 June 2009	23 June 2009 to 21 December 2011	0.0826	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.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 40 to the consolidated financial statements in respect of the share option schemes, at no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire such rights in any other corporate body.

SHARE OPTION SCHEMES

The detailed disclosures relating to the Company's share option schemes are set out in note 40 to the consolidated financial statements.

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%	–		
	Interest of controlled corporation	525,716,000	7.78%	–	683,116,000	10.12%
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%	–		
	Interest of spouse	1,057,048,000	15.65%	735,000,000	1,794,856,000	26.59%
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%

Report of the Directors

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.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions of the Group are set out in note 50 to the consolidated financial statements.

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.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 21 to 24.

Report of the Directors

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.

AUDITORS

The consolidated financial statements of the Group for the year ended 30 September 2009 have been audited by Messrs. HLB Hodgson Impey Cheng who shall retire and, being eligible, offer themselves for re-appointment as the auditors of the Company at the forthcoming annual general meeting.

For the financial years ended 30 September 2008 and 30 September 2007, Messrs. HLB Hodgson Impey Cheng acted as auditors of the Company.

For and on behalf of the Board

Chan Wai Kay Katherine
Chairman

Hong Kong, 30 December 2009

Corporate Governance Report

CORPORATE GOVERNANCE REPORT

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. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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 was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the period under review.

BOARD OF DIRECTORS

As at 30 September 2009, the Board comprised of eight Directors including four executive Directors, namely Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Soo Kim Fui Jeffrey, one non-executive Director, namely Mr. Fu Hui Zhong and three independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Ms. Chan Man Kuen Laura. Ms. Chan Wai Kay Katherine is the Chairman of the Board and Mr. Xu Shengheng is the chief executive officer of the Company. Details of background and qualifications of each Director are set out in the section headed "Biography of Directors" of this annual report.

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent opinion. At least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise.

The Board of Directors is responsible for the overall strategic development of the Group. It also monitors the financial performance and internal control of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. Management is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval. The Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meetings. They are also serving on Audit Committee and Remuneration Committee.

According to the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being, or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

To the knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 30 September 2009, a total of 26 regular and adhoc Board meetings were held.

Corporate Governance Report

During the year ended 30 September 2009, 26 Board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees were as follows:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Ms. Chan Wai Kay Katherine *(Note 1)*	19/26	N/A	N/A
Mr. Xu Shengheng *(Note 1)*	17/26	N/A	N/A
Mr. Wu Shu Min	26/26	1/4	N/A
Mr. Soo Kim Fui Jeffrey *(Note 1)*	19/26	4/4	N/A
Mr. Xu Zhi Feng *(Note 6)*	6/26	N/A	N/A
Ms. Cheung Kwan *(Note 8)*	5/26	N/A	N/A
Non-executive Directors			
Mr. Fu Hui Zhong *(Note 2)*	13/26	N/A	N/A
Mr. Lu Chuan *(Note 7)*	11/26	N/A	N/A

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Independent non-executive Directors			
Ms. Chan Man Kuen Laura *(Note 1)*	18/26	3/4	1/1
Mr. Jia Wenzeng *(Note 2)*	12/26	2/4	1/1
Mr. Chow Wan Hoi Paul *(Note 3)*	11/26	2/4	0/1
Mr. Chiu Chun Kit Calvin *(Note 4)*	6/26	1/4	1/1
Mr. Liu Yang *(Note 5)*	0/26	0	0/1
Mr. Zhang Lai *(Note 6)*	5/26	1/4	0/1
Ms. Cai Xin *(Note 7)*	11/26	2/4	0/1

Note:

1. Appointed on 6 February 2009.
2. Appointed on 25 March 2009.
3. Appointed on 1 May 2009.
4. Appointed on 6 February 2009 and resigned on 1 May 2009.
5. Resigned on 17 December 2008.
6. Ceased on 6 February 2009.
7. Ceased on 25 March 2009.
8. Appointed on 6 February 2009 and removed on 25 March 2009.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

Corporate Governance Report

NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, each of Mr. Fu Hui Zhong, the non-executive Director, Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Ms. Chan Man Kuen Laura, the independent non-executive Directors has been appointed for a specific term of two years.

The Company has received, from each of the independent non-executive directors, an annual confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive directors are independent.

REMUNERATION COMMITTEE

A remuneration committee was formed in May 2006 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee in designing the remuneration packages would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management. The remuneration committee presently consists of three independent non-executive Directors of the Company, namely Ms. Chan Man Kuen Laura (the chairman of remuneration committee), Mr. Jia Wenzeng and Mr. Chow Wan Hoi Paul.

During the year under review, one meeting was held by the remuneration committee to consider and approve the remuneration packages of most of the directors including those appointed during the year.

NOMINATION COMMITTEE

The Company has not established 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.

AUDITORS' REMUNERATION

For the year ended 30 September 2009, the remuneration in respect of audit services amounted to HK$2.1 million and non-audit service assignment amounted to HK$377,200 provided by the auditors, HLB Hodgson Impey Cheng, during the year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. After the resignation of Mr. Liu Yang as a member of Audit Committee on 17 December 2008, the audit committee only consisted of two independent non-executive Directors of the Company, namely Ms. Cai Xin and Mr. Zhang Lai. Since then, the Company has failed to comply with the minimum number of three members for the Audit Committee as required under Rule 5.28 of the GEM Listing Rules. This non-compliance was rectified when appointment of Mr. Chiu Chun Kit Calvin and Ms. Chan Man Kuen Laura as audit committee member on 6 February 2009. As at 30 September 2009, the audit committee comprises Mr. Jia Wenzeng, Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul.

The audit committee reviews the quarterly, interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

Corporate Governance Report

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The Auditors are responsible to form an independent opinion based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

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.

INTERNAL CONTROLS

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company. Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system with the guidance of the executive Directors.

During the year, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control.

Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA GROUND SOURCE ENERGY LIMITED
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 114, which comprise the consolidated and company balance sheets as at 30 September 2009, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditors' Report

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.

Independent Auditors' Report

(c) 吳江市胜信光電科技有限公司 ("胜信") 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, 胜信 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 胜信 (the "Capital Injection") which purportedly took place in December 2005 might have diluted the Group's then equity interest in 胜信 from 51% to 32.74%, thereby casting doubt as to the appropriateness of the accounting treatment previously adopted by the Group in accounting for 胜信. 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 胜信 at the material times (the "胜信 Investigation"). Up to the date of this report, the 胜信 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 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.

Independent Auditors' Report

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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 30 December 2009

Consolidated Income Statement

For the year ended 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
Continuing operations			
Turnover	8	**325,512**	139,184
Cost of sales		**(217,692)**	(69,108)
Gross profit		**107,820**	70,076
Other revenue and income	10	**46,677**	24,317
Selling and distribution costs		**(11,869)**	(6,533)
Administrative expenses		**(114,251)**	(41,901)
Other operating expenses		**(173,894)**	(10,468)
(Loss)/Profit from operations	11	**(145,517)**	35,491
Share of results of a jointly controlled entity		**19**	(321)
Share of results of associates		**(145)**	(83)
Finance costs	12	**(26,011)**	(20,274)
(Loss)/Profit before tax		**(171,654)**	14,813
Income tax credit	13	**2,077**	1,070
(Loss)/Profit for the year from continuing operations		**(169,577)**	15,883
Discontinued operations	14		
Loss for the year from discontinued operations		**(3,766)**	(5,063)
(Loss)/Profit for the year		**(173,343)**	10,820
Attributable to:			
Equity holders of the Company		**(172,873)**	9,170
Minority interests		**(470)**	1,650
(Loss)/Profit for the year		**(173,343)**	10,820
(Loss)/Earnings per share attributable to equity holders of the Company during the year			
From continuing and discontinued operations			
Basic	15	**(HK$2.86) cents**	HK$0.20 cents
Diluted	15	**(HK$2.86) cents**	HK$0.20 cents
From continuing operations			
Basic	15	**(HK$2.80) cents**	HK$0.30 cents
Diluted	15	**(HK$2.80) cents**	HK$0.30 cents

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

At 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**90,524**	70,833
Prepaid land lease payments	18	**–**	3,733
Intangible assets	19	**3,868**	5,074
Interest in a jointly controlled entity	21	**–**	9,774
Interests in associates	22	**34,694**	36,365
Goodwill	23	**585,433**	906,862
Available-for-sale investments	24	**24,858**	489
		739,377	1,033,130
Current assets			
Inventories	25	**72,802**	92,174
Held-for-trading financial assets	26	**1,625**	14,502
Trade and retention receivables	27	**49,289**	101,369
Amounts due from customers for contract works	28	**171,601**	88,596
Prepayments, deposits and other receivables	29	**306,513**	100,895
Amounts due from minority shareholders	30	**4,574**	2,559
Amount due from an associate	30	**–**	609
Cash and cash equivalents	31	**131,631**	120,041
		738,035	520,745
Current liabilities			
Trade and bills payables	32	**94,895**	66,116
Amounts due to customers for contract works	28	**32,722**	18,304
Accrued liabilities, deposits received and other payables	33	**83,158**	98,206
Interest-bearing bank and other loans	34	**1,133**	36,344
Amounts due to minority shareholders	35	**12,221**	21,968
Amounts due to associates	35	**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

Consolidated Balance Sheet

At 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current liabilities			
Convertible notes	36	**257,143**	231,723
Deferred tax liabilities	37	**17,631**	21,826
Interest-bearing bank and other loans	34	**5,667**	–
Deferred income	38	**25,179**	9,989
		305,620	263,538
Net assets		**878,902**	953,888
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	39	**526,735**	440,935
Reserves		**304,252**	457,610
		830,987	898,545
Minority interests		**47,915**	55,343
Total equity		**878,902**	953,888

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 December 2009 and signed on its behalf by:

Chan Wai Kay Katherine
Executive Director

Xu Shengheng
Executive Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

At 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	20	**1,045,746**	1,032,746
Property, plant and equipment	17	**690**	1,126
		1,046,436	1,033,872
Current assets			
Prepayments, deposits and other receivables		**1,014**	1,014
Amounts due from subsidiaries	20	**100,000**	–
Cash and cash equivalents	31	**41,103**	68,335
		142,117	69,349
Current liabilities			
Accrued liabilities and other payables		**815**	2,630
Amounts due to subsidiaries	20	**46,706**	32,768
		47,521	35,398
Net current assets		**94,596**	33,951
Total assets less current liabilities		**1,141,032**	1,067,823
Non-current liabilities			
Convertible notes	36	**257,143**	231,723
Deferred tax liabilities	37	**17,631**	21,826
		274,774	253,549
Net assets		**866,258**	814,274
EQUITY			
Share capital	39	**526,735**	440,935
Reserves	41	**339,523**	373,339
Total equity		**866,258**	814,274

The financial statements were approved and authorised for issue by the board of directors on 30 December 2009 and signed on its behalf by:

Chan Wai Kay Katherine
Executive Director

Xu Shengheng
Executive Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2009

	Equity attributable to equity holders of the Company											
	Issued share capital	Share premium account	Statutory reserve	Convertible notes reserve	Capital reserve	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Sub–total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2007	230,667	100,821	4	–	–	1,618	779	(1,084)	(202,037)	130,768	16,125	146,893
Deficits arising from revaluation of leasehold buildings	–	–	–	–	–	(297)	–	–	–	(297)	(285)	(582)
Currency translation	–	–	–	–	–	–	–	8,072	–	8,072	1,103	9,175
Net income and expenses recognised directly in equity	–	–	–	–	–	(297)	–	8,072	–	7,775	818	8,593
Net profit for the year	–	–	–	–	–	–	–	–	9,170	9,170	1,650	10,820
Total recognised income and expense for the year	–	–	–	–	–	(297)	–	8,072	9,170	16,945	2,468	19,413
Issuance of shares for acquisition of subsidiaries	117,000	233,000	–	–	–	–	–	–	–	350,000	–	350,000
Exercise of share options	390	360	–	–	–	–	–	–	–	750	–	750
Placing of new shares	92,878	184,490	–	–	–	–	–	–	–	277,368	–	277,368
Cost of placing new shares	–	(2,041)	–	–	–	–	–	–	–	(2,041)	–	(2,041)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	33,341	33,341
Release of translation reserve on disposal/winding up of subsidiaries	–	–	–	–	–	–	–	1,075	–	1,075	–	1,075
Incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	–	3,409	3,409
Issuance of convertible notes	–	–	–	148,120	–	–	–	–	–	148,120	–	148,120
Deferred tax	–	–	–	(24,440)	–	–	–	–	–	(24,440)	–	(24,440)
At 30 September 2008 and 1 October 2008	440,935	516,630	4	123,680	–	1,321	779	8,063	(192,867)	898,545	55,343	953,888
Currency translation	–	–	–	–	–	–	–	(200)	–	(200)	4,426	4,226

Consolidated Statement of Changes in Equity

For the year ended 30 September 2009

	Equity attributable to equity holders of the Company											
	Issued share capital	Share premium account	Statutory reserve	Convertible notes reserve	Capital reserve	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Sub–total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net income and expenses recognised directly in equity	–	–	–	–	–	–	–	(200)	–	(200)	4,426	4,226
Net loss for the year	–	–	–	–	–	–	–	–	(172,873)	(172,873)	(470)	(173,343)
Total recognised income and expense for the year	–	–	–	–	–	–	–	(200)	(172,873)	(173,073)	3,956	(169,117)
Placing of new shares	85,800	(507)	–	–	–	–	–	–	–	85,293	–	85,293
Disposal of subsidiaries	–	–	–	–	–	(1,321)	–	(515)	1,321	(515)	(11,384)	(11,899)
Grant of share option	–	–	–	–	–	–	26,357	–	–	26,357	–	26,357
Deemed acquisition of a subsidiary	–	–	–	–	–	–	–	–	(6,545)	(6,545)	–	(6,545)
Government subsidiary	–	–	–	–	698	–	–	–	–	698	–	698
Acquisition of further interest of a subsidiary	–	–	–	–	–	–	–	–	227	227	–	227
Provision of statutory reserve during the year	–	–	303	–	–	–	–	–	(303)	–	–	–
At 30 September 2009	526,735	516,123	307	123,680	698	–	27,136	7,348	(371,040)	830,987	47,915	878,902

Consolidated Statement of Cash Flows

For the year ended 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax from continuing operations		**(171,654)**	14,813
Loss before tax from discontinued operations		**(3,766)**	(4,448)
		(175,420)	10,365
Adjustments for:			
Interest income		**(862)**	(2,259)
Share-based payment expenses		**26,357**	–
Dividend income		**(1,256)**	(892)
Share of results of a jointly controlled entity		**(19)**	321
Share of results of associates		**145**	83
Gain on disposal of subsidiaries		**(8,204)**	(946)
Loss on winding up of a jointly controlled entity		**9,793**	–
Gain on winding up of subsidiaries		**–**	(1,027)
Depreciation of property, plant and equipment		**8,291**	5,491
Loss on disposal of property, plant and equipment		**9,633**	–
Amortisation of intangible assets		**1,193**	597
Amortisation of prepaid land lease payments		**81**	85
Write-off of property, plant and equipment		**1,518**	102
Impairment on goodwill		**161,429**	1,269
Write off on inventories		**64**	–
Finance costs		**29,424**	24,733
Amortisation of deferred income on government grants		**(784)**	(383)
Fair value changes on held-for-trading financial assets		**(500)**	(34,263)
Provision of allowance of doubtful debts		**13,505**	7,183
Reversal of allowance for doubtful debts		**(5,663)**	(1,307)
Operating cash flow before working capital changes		**68,725**	9,152
Decrease/(increase) in inventories		**20,317**	(13,973)
Increase in trade and retention receivables		**(14,690)**	(4,993)
Increase in amounts due from customers for contract work		**(68,587)**	(17,801)
(Increase)/decrease in prepayments, deposits, other deposits and other receivables		**(55,870)**	11,375
(Increase)/decrease in amount due from a minority shareholder		**(2,015)**	3,998
Decrease/(increase) in amount due from an associate		**609**	(594)
Proceeds from disposal of held-for-trading financial assets		**13,377**	87,288
Purchase of held-for-trading financial assets		**–**	(3,310)
Increase/(decrease) in amounts due to directors		**11,762**	(334)
Increase in trade and bills payables		**56,443**	3,306
(Decrease)/increase in accrued liabilities, deposits received and other payables		**(5,620)**	8,152
Increase in deferred income		**15,974**	5,928
(Decrease)/increase in amount due to a minority shareholder		**(8,939)**	17,989
(Decrease)/increase in amount due to an associate		**(26,864)**	89,680

Consolidated Statement of Cash Flows

For the year ended 30 September 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		**4,622**	195,863
Interest paid		**(4,004)**	(8,890)
Dividend received		**1,256**	892
Income tax paid in the PRC		**(2,004)**	(1,523)
Net cash (used in)/generated from operating activities		**(130)**	186,342
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**862**	2,259
Purchase of property, plant and equipment		**(56,812)**	(22,374)
Purchase of available-for-sale investments		**(24,369)**	–
Capital injection from minority shareholders		**–**	3,409
Investments in associates		**(886)**	(34,110)
Acquisition of subsidiaries	*43*	**1,214**	(242,666)
Disposal of a subsidiary	*45*	**7,451**	(117)
Decrease in pledged deposits		**–**	790
Net cash outflow from investing activities		**(72,540)**	(292,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		**–**	44,991
Drawdown of other loans		**6,800**	17,242
Repayment of bank loans		**(1,941)**	(195,373)
Repayment of other loans		**(4,660)**	(13,269)
Government subsidy		**698**	–
Proceeds from placing of new shares		**85,800**	275,327
Share issuing expenses		**(507)**	–
Proceeds from exercise of share options		**–**	750
Net cash inflow from financing activities		**86,190**	129,668
Net increase in cash and cash equivalents		**13,520**	23,201
Cash and cash equivalents at beginning of the year		**120,041**	91,400
Effect of foreign exchange rate changes		**(1,930)**	5,440
Cash and cash equivalents at the end of the year		**131,631**	120,041
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*31*	**131,631**	120,041

The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

1. GENERAL INFORMATION

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 address of its registered office is Huntlaw Building, P.O. Box 2804 George Town, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is Room 1303, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong. The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, jointly controlled entity and associates are set out in notes 20, 21 and 22 and 42 respectively.

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

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.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements of the Group and of the Company are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

(a) Basis of preparation

(i) Significant uncertainty relating to the Group's relationship with 湖南衡興環保科技開發有限公司 and related accounting treatment

At 30 September 2009, the Group had an amount due from 湖南衡興環保科技開發有限公司 ("衡興環保") amounted to approximately HK$4,065,000 (the "Balance") and was classified as prepayment, deposits and other receivables. The directors of the Company is of the view that the Balance represents advances for development of a project, namely "關於湖南省衡陽危險廢物處置中心項目合同" (the "Project") and it was disposed of to two independent third parties during the year ended 30 September 2009. The Balance was recorded in the 深圳市利賽實業發展有限公司 ("利賽"), an indirectly wholly subsidiary of the Company and is principally engaged in environmental protection segement – synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage and waste water and utilisation of new energy sources. The directors of the Company have been of the understanding, based on the information provided by the management of 利賽, the Balance was for development of the Project and 衡興環保 is not a related party of the Group as defined in Hong Kong Accounting Standards 24 "Related Party Disclosure" ("HKAS 24").

As disclosed in the Company's announcement dated 23 December 2009, the auditors of the Company informed the board of directors of the Company (the "Board") that 衡興環保 may have a relationship with the Group. As a result, the Board resolved to appoint an independent auditor to investigate the relationship between the Group and 衡興環保 (the "衡興環保 Investigation"). Up to the date of the consolidated financial statements, the 衡興環保 Investigation is still in progress.

Based on the information available up to the date of the consolidated financial statements, the directors of the Company are of the opinion that the accounting treatment for 衡興環保 is appropriate.

(ii) Significant uncertainty relating to the ownership on 吳江胜信光電科技有限公司

吳江胜信光電科技有限公司 ("胜信") was an indirect non-wholly owned subsidiary of the Company and is principally engaged in manufacture and sale of communication cable and optical cable. 胜信 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 disposal of 胜信, it was accounted for as a 51% owned subsidiary since the date of acquisition and up to the date of disposal. As disclosed in the Company's announcement dated 23 December 2009, the auditors of the Company informed the Board that they have discovered certain document during their audit for the year ended 30 September 2009 that the increase in registered capital of 胜信 in December 2005 might have diluted the Group's then equity interest in 胜信 from 51% to 32.74%. The Board resolved to appoint an independent auditor to investigate the shareholding of the Company in 胜信 for the period from December 2005 to September 2007 (the "胜信 Investigation"). Up to the date of the consolidated financial statements, the 胜信 Investigation is still in progress. Based on the information available, the directors of the Company are of the opinion that the accounting treatment for 胜信 is appropriate.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) 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.

Certain comparative figures have been reclassified to conform with the current year's presentation.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the Group made up to 30 September each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effect date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interests in a subsidiary

Changes in the Company's ownership interests in a subsidiary that do not result in loss of control are accounted for as equity transactions (i.e. transactions with the Company in the capacity as owners).

In such circumstances the carrying amounts of the controlling interest and minority interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which minority interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company.

(d) Interests in subsidiaries

Interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

(e) Interest in a jointly controlled entity

A jointly controlled entity is a joint venture arrangement that involves the establishment of a separate entity which ventures have joint control over the economic activity of the entity.

The results and assets and liabilities of a jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interest in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an jointly controlled entity of the Group, profits and losses eliminated to the extent of the Group's interest in the relevant jointly controlled entity.

(f) Interests in associates

Associates are all entities over which the Group has significant influence and that is neither subsidiaries nor interests in jointly controlled entities.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Interests in associates *(Continued)*

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(g) Goodwill

Goodwill arising from the acquisition of a subsidiary or an associate represents the excess of the cost acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit on the pro rata basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Goodwill arising from acquisition of an associate is included in the carrying amount of the investment and is assessed for impairment as part of the investment.

(h) Impairment of assets

Goodwill, other intangible assets, property, plant and equipment, prepaid land lease payments and interests in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

Individual assets or cash-generating units that include goodwill (and other intangible assets with an indefinite useful life) are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the income statement in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Revenue recognition

Revenue is recognised when it is probable the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, provided that the Group maintains neither managerial involvement to the degree usually associated with ownerships, nor effective control over the goods sold;

(ii) Revenue from the rendering of services is recognised when the agreed services have been rendered;

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rate applicable; and

(iv) Revenue from the sale of securities investments are recognised on a trade date basis.

(k) Intangible assets (other than goodwill) and research and development costs

Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives from the date when they are available for use.

Both the period and method of amortisation are reviewed annually.

Research and development costs

Cost associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided that meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits for internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion; and

(iv) the intangible asset can be reliably measured.

Direct costs include employee costs incurred during development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Type	*Basis*
Buildings/Lease rights on medium term leases of properties	Over the lease terms
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	8 to 20 years
Computer equipment	4 to 8 years
Office equipment, furniture and fixtures	4 to 5 years
Motor vehicles	5 to 8 years

All buildings are recognised at fair value, based on their use at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the assets. All other property, plant and equipment other than construction in progress are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of buildings is credited to the asset revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 4(h). To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the asset revaluation reserve. A decrease in net carrying amount of buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the asset and the remaining decrease is recognised in income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on disposal is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement. Any revaluation surplus remaining in equity is transferred to accumulated losses on the disposal of buildings.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises of direct cost of construction during the period of construction.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the lease term.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(o) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when an entity of the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise. The net gain or loss recognised in income statement includes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near future; or

(ii) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including other receivables, and cash and cash equivalents are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy in respect of impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) default or delinquency in interest or principal payments; or

(iii) it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in the income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by an entity of the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Financial liabilities

Financial liabilities (including trade and bills payables, other payables, interest-bearing bank and other loans, amount due to minority shareholders and amounts due to associates) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes – equity reserve). Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes reserve until the embedded option is exercised (in which case the balance stated in convertible notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes – equity reserve will be released to retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes (Continued)

If the conversion option of convertible notes exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible notes based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

(p) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(q) Construction contract

Construction revenue comprises of the agreed contract amount and appropriate amounts from variation of orders, claims and incentive payments. Contract costs incurred comprise of direct materials, the cost of subcontracting, direct labor and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contracts.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. When contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as amount due from customer for contract work.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Construction contract *(Continued)*

When progress billing exceed contract costs incurred to date plus recognised profit less recognised losses, the surplus is treated as an amount due to customer for contract work.

(r) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as recognised for all deductible temporary differences, tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items are charged or credited directly to equity.

(s) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits.

(t) Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, expect for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Pension scheme and other retirement benefits *(Continued)*

The Company's subsidiaries in the People's Republic of China except Hong Kong (the "PRC") are required to particulate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contributions payable by these subsidiaries are calculated based on a certain percentage of the salaries and wages of those eligible employees and are charged to the income statement in the period to which they relate.

(u) Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is praised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in the income statement with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-current vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options are ultimately exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

(v) Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(x) Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significant influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009	2008
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including bank balances and cash)	**542,742**	387,669
Financial assets at fair value through profit or loss		
– Held-for-trading financial assets	**1,625**	14,502
Available-for-sale investments	**24,858**	489
Financial liabilities		
Amortised cost	**520,703**	550,929

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, available-for-sale investments, held-for-trading financial assets, trade and other payables, amount due from/to an associate and amount due from/to a minority shareholder, bank borrowings and convertible notes. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in both the People's Republic of China and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

	Assets		Liabilities	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**306,386**	303,271	**200,588**	283,973

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in Renminbi. At 30 September 2009, if there is a 5% increase or decrease in the Hong Kong dollars against the Renminbi with all other variables held constant, the Group's translation reserve would be increased or decreased by approximately HK$5,290,000 (2008: HK$965,000).

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

(2) Other price risk

The Groups equity investments classified as held-for-trading financial assets which are measured at fair value at each balance sheet date and expose the Group to equity price risk. The Group's equity price risk is mainly concentrated on equity securities quoted in the Stock Exchange. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. In addition, the Group will monitor the price risk and will consider hedging the risk exposure should the need rise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 5% higher/lower, the Group's:

(i) profit before taxation for the year ended 30 September 2009 would increase/decrease by approximately HK$81,000 (2008: increase/decrease by HK$725,000) as a result of the changes in fair value of held-for-trading financial assets.

The Group's sensitivity to equity prices has decreased during the current year mainly due to the decrease in equity investments held.

(3) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings. Short-term borrowings at variable rates expose the Group to fair value interest rate risk (see note 34 for details of these borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 30 September 2009 and 2008, a reasonably possible change of 50 basis-points interest rates on borrowings would have no material impact on the Group's results for the year and equity as at the year end.

(ii) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(iii) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and considering obtaining banking facilities to support the Group's short, medium and long-term funding and liquidity management requirements. In addition, the management of the Group continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on weighted average effective interest rates) and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Less than 1 year	Between 2 and 5 years	Over 5 years	Total contractual undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 September 2009						
Non-derivative financial liabilities						
Trade and bills payables	–	**94,895**	–	–	**94,895**	**94,895**
Amounts due to customers for contract works	–	**32,722**	–	–	**32,722**	**32,722**
Accrued liabilities and other payables	–	**54,020**	–	–	**54,020**	**54,020**
Interest-bearing bank and other loans	**7%**	**1,133**	**6,251**	–	**7,384**	**6,800**
Amounts due to minority shareholders	–	**12,221**	–	–	**12,221**	**12,221**
Amounts due to associates	–	**62,902**	–	–	**62,902**	**62,902**
Convertible notes	**9-11%**	–	**285,401**	–	**285,401**	**257,143**
		257,893	**291,652**	–	**549,545**	**520,703**
At 30 September 2008						
Non-derivative financial liabilities						
Trade and bills payables	–	66,116	–	–	66,116	66,116
Amounts due to customers for contract works	–	18,304	–	–	18,304	18,304
Accrued liabilities and other payables	–	86,708	–	–	86,708	86,708
Interest-bearing bank and other loans	9%	37,571	–	–	37,571	36,344
Amounts due to minority shareholders	–	21,968	–	–	21,968	21,968
Amounts due to associates	–	89,766	–	–	89,766	89,766
Convertible notes	11%	–	364,000	–	364,000	231,723
		320,433	364,000	–	684,433	550,929

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and

(ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except for the liability component of convertible notes which recorded at amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their respective fair values:

	2009		2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Convertible notes *(note)*	**257,143**	**152,874**	231,723	230,500

Note:

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

6. CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to maximise returns to stakeholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of issuance of new shares or sell assets to reduce debts.

The Group monitors its capital on the basis of the gearing ratio of total borrowings over equity. This ratio is calculated as total borrowings divided by equity. The Group aims to maintain the gearing ratio at a reasonable level.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

6. CAPITAL RISK MANAGEMENT *(Continued)*

The gearing ratios at the balance sheet dates are as follows:

	2009	2008
	HK$'000	*HK$'000*
Total borrowings *(note i)*	**263,943**	268,067
Equity *(note ii)*	**830,987**	898,545
Gearing ratio	**32%**	30%

i) Debt comprises the interest-bearing bank and other loans and convertible notes as detailed in notes 34 and 36 respectively.

ii) Equity includes all capital and reserves of the Group.

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and in the future period.

(b) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. The estimate is based on the credit history of its customers and current market conditions. The management of the Group reassesses the impairment of trade receivables at the balance sheet date.

(c) Allowance for obsolete of inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate aging analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(d) Leasehold buildings

As described in note 17, leasehold buildings are stated at fair values based on the valuation performed by independent professional valuers. In determining the fair values, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions. Should there are any changes in assumptions due to change of market conditions, the fair values of the leasehold buildings will change in future.

(e) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

8. 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	2008
	HK$'000	*HK$'000*
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
	325,512	139,184
Discontinued operations		
Sales of communication cables and optical cables	**84,319**	95,853
	409,831	235,037

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. 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.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(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		
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Transmission	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:									
Sales to external customers	–	286,959	28,608	9,945	–	325,512	84,319	84,319	409,831
Segment results	–	55,527	(5,825)	1,968	(15,438)	36,232	(264)	(264)	35,968
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						(169,577)		(3,766)	(173,343)

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Consolidated balance sheet

At 30 September 2009

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

Other segment information

For the year ended 30 September 2009

	Continuing operations						Discontinued operations		
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Transmission	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	–	2,144	3,202	581	996	6,923	1,368	1,368	8,291
Write-off of property, plant and equipment	–	65	1,453	–	–	1,518	–	–	1,518
Amortisation of prepaid land lease payments	–	–	–	–	–	–	81	81	81
Provision of allowance for doubtful debts	–	9,709	168	1,232	226	11,335	2,170	–	13,505
Reversal of allowance for doubtful debts	–	–	(227)	–	–	(227)	–	–	(227)
Reversal of bad debts written off	–	(4,166)	(38)	–	–	(4,204)	(1,232)	(1,232)	(5,436)
Allowance for obsolete inventories	–	64	–	–	–	64	–	–	64
Share-based payment expenses	–	–	–	–	26,357	26,357	–	–	26,357
(Deficit)/surplus arising from revaluation of leasehold buildings – recognised directly in equity	–	–	–	–	–	–	–	–	–
Capital expenditure	–	44,697	6,957	1,674	16	53,344	3,468	3,468	56,812
Impairment of goodwill	–	–	–	–	161,429	161,429	–	–	161,429

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Consolidated income statement

For the year ended 30 September 2008

	Continuing operations						Discontinued operations		
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Transmission	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover:									
Sales to external customers	–	76,095	28,826	34,263	–	139,184	95,853	95,853	235,037
Segment results	–	5,825	6,250	33,735	(3,194)	42,616	10	10	42,626
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						15,883		(5,063)	10,820

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Consolidated balance sheet

At 30 September 2008

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

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Other segment information

For the year ended 30 September 2008

	Continuing operations						Discontinued operations		
	Transmission	Shallow ground energy	Environmental protection	Securities investment and trading	Corporate and others	Total	Transmission	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of property, plant and equipment	–	1,049	1,687	–	837	3,573	1,918	1,918	5,491
Write-off of property, plant and equipment	–	–	–	–	–	–	102	102	102
Amortisation of prepaid land lease payments	–	–	–	–	–	–	85	85	85
Provision of allowance for doubtful debts	–	7,183	–	–	–	7,183	–	–	7,183
Reversal of allowance for doubtful debts	–	–	–	–	–	–	(1,307)	(1,307)	(1,307)
Reversal of bad debts written off	–	(14,804)	–	–	–	(14,804)	–	–	(14,804)
Allowance for obsolete Inventories	–	–	–	–	–	–	–	–	–
Share-based payment expenses	–	–	–	–	–	–	–	–	–
(Deficit)/surplus arising from revaluation of leasehold buildings – recognised directly in equity	–	–	–	–	–	–	(582)	(582)	(582)
Capital expenditure	–	9,070	6,279	–	4,763	20,112	2,262	2,262	22,374
Impairment of goodwill	–	–	–	–	1,269	1,269	–	–	1,269

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

9. SEGMENT INFORMATION *(Continued)*

(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.

10. OTHER REVENUE AND INCOME

	Continuing operation		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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
	7,833	7,537	**1,656**	607	**9,489**	8,144
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**	–
	38,844	16,780	**1,232**	1,304	**40,076**	18,084
	46,677	24,317	**2,888**	1,911	**49,565**	26,228

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

11. (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) *(note 16)*						
– 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**	–

12. 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

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For the year ended 30 September 2009

13. 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
	2,077	1,070	**–**	(615)	**2,077**	455

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.

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For the year ended 30 September 2009

13. INCOME TAX CREDIT/(EXPENSE) *(Continued)*

A reconciliation of the tax expenses applicable to loss/(profit) using the statutory rates for the courtiers in which the Group is domiciled to the tax credit/(expense) at effective tax rates, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

For the year ended 30 September 2009

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss/(profit) before tax						
– Continuing operation	222,559		(50,905)		171,654	
– Discontinued operations	–		3,766		3,766	
	222,559		(47,139)		175,420	
Tax at the statutory tax rate	36,722	16.5	(11,785)	25.0	24,937	14.2
Tax effect of share of results of associates and a jointly controlled entity	–	–	(31)	0.1	(31)	–
Tax effect of expenses not deductible for tax purpose	(39,327)	(17.7)	(1,452)	3.1	(40,779)	(23.2)
Tax effect of income not taxable for tax purpose	8,353	3.8	16,717	(35.5)	25,070	14.3
Lower tax rate for specific provinces	–	–	1,112	(2.4)	1,112	0.6
Tax effect of utilisation of tax losses previously not recognised	(2,722)	(1.2)	(12,336)	26.2	(15,058)	(8.6)
Tax effect of tax losses not recognised	1,169	0.5	5,657	(12.0)	6,826	3.9
Tax credit/(charge) for the year	4,195	1.9	(2,118)	4.5	2,077	1.2

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13. INCOME TAX CREDIT/(EXPENSE) *(Continued)*

For the year ended 30 September 2008

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss/(profit) before tax						
– Continuing operation	24,193		(39,006)		(14,813)	
– Discontinued operations	–		4,448		4,448	
	24,193		(34,558)		(10,365)	
Tax at the statutory tax rate	3,992	16.5	(8,640)	25.0	(4,648)	44.8
Tax effect of share of results of associates and a jointly controlled entity	–	–	(100)	0.3	(100)	1.0
Tax effect of expenses not deductible for tax purpose	(48)	(0.2)	(5,136)	14.9	(5,184)	50.0
Tax effect of income not taxable for tax purpose	2,474	10.2	11,814	(34.2)	14,288	(137.8)
Effect of change in tax rate	–	–	(117)	0.3	(117)	1.1
Lower tax rate for specific provinces	–	–	1,788	(5.2)	1,788	(17.3)
Tax effect of tax losses not recognised	(3,804)	(15.7)	(1,768)	5.1	(5,572)	53.8
Tax credit/(charge) for the year	2,614	10.8	(2,159)	6.2	455	(4.4)

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

14. 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.

Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal are disclosed in note 45(a).

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	2008
	HK$'000	*HK$'000*
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	**(3,766)**	(5,063)
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	**(77,983)**	(57,327)

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15. (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	2008
	HK$'000	*HK$'000*
(Loss)/earnings attributable to equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share	**(172,873)**	9,170

	2009	2008
	'000	*'000*
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	**107,188**	3,789
Weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share	**6,149,067**	4,686,476

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15. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY *(Continued)*

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	2008
	HK$'000	*HK$'000*
(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	**(3,766)**	(5,063)
	(169,107)	14,233

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.

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2009	2008
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**290**	330
Executive directors	**–**	–
Non-executive directors	**240**	20
	530	350
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**15,011**	2,272
	15,541	2,622

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16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

The emoluments of each director, on a named basis for the years ended 30 September 2009 and 2008 are set out below:

	For the year ended 30 September 2009					
	Director fees	Salaries allowances and benefits in kind	Discretionary bonus	Share-based payment expenses	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors:						
Ms. Laura Chan Man Kuen *(note i)*	78	–	–	233	–	311
Mr. Paul Chow Wan Hoi *(note ii)*	50	–	–	233	–	283
Mr. Jia Wenzeng *(note iii)*	62	–	–	233	–	295
Mr. Calvin Chiu Chun Kit *(note iv)*	28	–	–	–	–	28
Mr. Zhanglai *(note v)*	32	–	–	–	–	32
Ms. Cai Xin *(note vi)*	40	–	–	–	–	40
	290	–	–	699	–	989
Non-executive directors:						
Mr. Lu Chuan *(note vii)*	116	–	–	–	–	116
Mr. Fu Hui Zhong *(note viii)*	124	–	–	700	–	824
	240	–	–	700	–	940
Executive directors:						
Ms. Chan Wai Kay Katherine *(note ix)*	–	1,251	–	2,568	12	3,831
Mr. Xu Shengheng *(note x)*	–	1,920	–	2,568	12	4,500
Mr. Wu Shu Min *(note xi)*	–	1,920	–	2,568	–	4,488
Mr. Jeffrey Soo Kim Fui *(note xii)*	–	391	–	1,634	–	2,025
Mr. Xu Zhi Feng *(note xiii)*	–	167	–	–	–	167
	–	5,649	–	9,338	24	15,011
Total – 2009	530	5,649	–	10,737	24	16,940

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

Notes:

(i) Ms. Laura Chan Man Kuen was appointed on 25 March 2009.

(ii) Mr. Paul Chow Wan Hoi was appointed on 1 May 2009.

(iii) Mr. Jia Wenzeng was appointed on 25 March 2009.

(iv) Mr. Calvin Chiu Chun Kit was resigned on 30 April 2009.

(v) Mr. Zhang Lai was resigned on 6 February 2009.

(vi) Ms. Cai Xin was resigned on 25 March 2009.

(vii) Mr. Lu Chuan was resigned on 25 March 2009.

(viii) Mr. Fu Hui Zhong was appointed on 25 March 2009.

(ix) Ms. Chan Wai Kay Katherine was appointed on 25 March 2009.

(x) Mr. Xu Shengheng was appointed on 25 March 2009.

(xi) Mr. Wu Shu Min was appointed on 25 March 2009.

(xii) Mr. Jeffrey Soo Kim Fui was appointed on 25 March 2009.

(xiii) Mr. Xu Zhi Feng was resigned on 6 February 2009.

Notes to the Consolidated Financial Statements

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16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

	For the year ended 30 September 2008					
	Director fees	Salaries allowances and benefits in kind	Discretionary bonus	Lump sum ex-gratia payment	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors:						
Mr. Liu Yang *(note vii)*	96	–	–	–	–	96
Mr. Li Jun Lin *(note i)*	86	–	–	–	–	86
Mr. Jin Dun Shen *(note ii)*	50	–	–	–	–	50
Mr. Zhanglai *(note iii)*	52	–	–	–	–	52
Ms. Cai Xin *(note iv)*	46	–	–	–	–	46
	330	–	–	–	–	330
Non-executive director:						
Mr. Lu Chuan *(note v)*	20	–	–	–	–	20
Executive directors:						
Mr. Wu Shu Min	–	1,492	–	–	–	1,492
Mr. Xu Zhi Feng	–	500	–	–	–	500
Mr. Fu Hui Zhong *(note vi)*	–	280	–	–	–	280
	–	2,272	–	–	–	2,272
Total – 2008	350	2,272	–	–	–	2,622

Notes:

(i) Mr. Li Jun Lin was resigned on 15 February 2008.

(ii) Mr. Jin Dun Shen was resigned on 9 April 2008.

(iii) Mr. Zhanglai was appointed on 14 March 2008.

(iv) Ms. Cai Xin was appointed on 9 April 2008.

(v) Mr. Lu Chuan was appointed on 1 September 2008.

(vi) Mr. Fu Hui Zhong was resigned on 30 April 2008.

(vii) Mr. Liu Yang was resigned on 17 December 2008.

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For the year ended 30 September 2009

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 September 2009 and 2008.

Five highest paid individuals

The five highest paid individuals in the Group during the year included four (2008: three) directors, details of whose emoluments are disclosed above. The emoluments paid to the remaining one (2008: two) non-director, highest paid individuals for the year are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	**528**	3,487
Pension scheme contributions	**12**	104
Share-based payment expenses	**10,040**	–
	10,580	3,591

The number of non-director, highest paid individuals whose emoluments fell within the following band is as follows:

	2009	2008
Nil – HK$1,000,000	**1**	2

During the years ended 30 September 2009 and 2008, no emoluments were paid by the Group to the directors or any of the five highest paid employees of the Group as an inducement to join the Group or upon joining the Group, or as compensation for loss of office.

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17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:								
At 1 October 2007	6,410	2,279	249	11,584	7,361	2,033	4,658	34,574
Acquisition of subsidiaries	–	13,738	225	14,688	53	2,474	2,992	34,170
Additions	1,299	815	1,710	8,474	1,007	5,673	3,396	22,374
Transfer from construction in progress	2,492	(2,492)	–	–	–	–	–	–
Write-off	–	–	–	–	(538)	(161)	(500)	(1,199)
Elimination on revaluation	(455)	–	–	–	–	–	–	(455)
Revaluation	(582)	–	–	–	–	–	–	(582)
Exchange alignment	386	1,311	21	1,507	38	127	416	3,806
At 30 September 2008 and 1 October 2008	9,550	15,651	2,205	36,253	7,921	10,146	10,962	92,688
Additions	60	48,084	131	5,885	140	390	2,068	56,758
Acquisition of a subsidiary	–	–	–	–	–	54	–	54
Transfer from construction in progress, office equipment, furniture and fixtures	341	(7,778)	2,997	6,988	–	(3,541)	993	–
Write-off	–	(1,364)	–	(154)	–	(221)	–	(1,739)
Disposal	–	(5,956)	–	(3,913)	–	–	–	(9,869)
Disposal of subsidiaries	(9,921)	–	–	(15,953)	(4,221)	(597)	(449)	(31,141)
Exchange alignment	(30)	(64)	(1)	(117)	(1)	(39)	(33)	(285)
At 30 September 2009	**–**	**48,573**	**5,332**	**28,989**	**3,839**	**6,192**	**13,541**	**106,466**
Accumulated depreciation:								
At 1 October 2007	–	–	249	5,692	7,235	2,031	1,994	17,201
Charge for the year	455	–	364	2,752	49	646	1,225	5,491
Write-off	–	–	–	–	(519)	(159)	(419)	(1,097)
Eliminated on revaluation	(455)	–	–	–	–	–	–	(455)
Exchange alignment	–	–	1	560	24	59	71	715
At 30 September 2008 and 1 October 2008	–	–	614	9,004	6,789	2,577	2,871	21,855
Acquisition of a subsidiary	–	–	–	–	–	26	–	26
Charge for the year	190	–	703	4,109	186	1,119	1,958	8,265
Disposal	–	–	–	(453)	–	–	–	(453)
Disposal of subsidiaries	(190)	–	–	(8,772)	(3,451)	(572)	(449)	(13,434)
Write-off	–	–	–	(65)	–	(156)	–	(221)
Exchange alignment	–	–	(19)	(9)	–	(21)	(47)	(96)
At 30 September 2009	**–**	**–**	**1,298**	**3,814**	**3,524**	**2,973**	**4,333**	**15,942**
Net book value:								
At **30 September 2009**	**–**	**48,573**	**4,034**	**25,175**	**315**	**3,219**	**9,208**	**90,524**
At 30 September 2008	9,550	15,651	1,591	27,249	1,132	7,569	8,091	70,833

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17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leasehold Improvement	Computer equipment	Office equipment, furniture and fixtures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 October 2007	–	–	–	–
Additions	1,045	133	130	1,308
At 1 October 2008	1,045	133	130	1,308
Additions	–	–	–	–
At 30 September 2009	**1,045**	**133**	**130**	**1,308**
Accumulated depreciation:				
At 1 October 2007	–	–	–	–
Charge for the year	149	14	19	182
At 1 October 2008	149	14	19	182
Charge for the year	359	33	44	436
At 30 September 2009	508	47	63	618
Net book value:				
At 30 September 2009	**537**	**86**	**67**	**690**
At 30 September 2008	896	119	111	1,126

All the Group's leasehold buildings included above are held under medium term leases in the PRC.

At 30 September 2008, the Group's leasehold buildings were revalued individually by Norton Appraisals Limited, independent professional qualified valuers, at an aggregate of HK$9,550,000. The revaluation deficits of HK$570,000, resulting from the above valuations has been credited to the equity.

At 30 September 2008, the Group's leasehold buildings and plant and machinery with carrying values of approximately HK$9,550,000 and HK$4,783,000 respectively, were pledged to secure general banking facilities granted to the Group (note 34).

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17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The analysis of the cost or valuation at 30 September 2009 of the above assets is as follows:

	Leasehold buildings	Construction in progress	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	**48,573**	**5,332**	**28,989**	**3,839**	**6,192**	**13,541**	**106,466**
At valuation	–	–	–	–	–	–	–	–
Net book value	–	**48,573**	**5,332**	**28,989**	**3,839**	**6,192**	**13,541**	**106,466**

The analysis of the cost or valuation at 30 September 2008 of the above assets is as follows:

	Leasehold buildings	Construction in progress	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	15,651	2,205	36,253	7,921	10,146	10,962	83,138
At valuation	9,550	–	–	–	–	–	–	9,550
Net book value	9,550	15,651	2,205	36,253	7,921	10,146	10,962	92,688

18. PREPAID LAND LEASE PAYMENTS

During the year ended 30 September 2008, the Group's prepaid land lease payments represent upfront payments to acquire interests in the usage of land situated in the PRC, which are held under medium term leases.

	2009	2008
	HK$'000	*HK$'000*
Outside Hong Kong held on:		
– Leases of between 10 to 50 years	–	3,733

The above land use rights were pledged to secure bank loans (note 34).

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18. PREPAID LAND LEASE PAYMENTS *(Continued)*

	2009	2008
	HK$'000	*HK$'000*
Cost:		
At the beginning of the year	**4,241**	3,879
Exchange alignment	**(14)**	362
Disposal of subsidiaries	**(4,227)**	–
At the end of the year	**–**	4,241
Accumulated amortisation:		
At beginning of the year	**508**	381
Charge for the year	**81**	85
Exchange alignment	**(2)**	42
Released upon disposal of subsidiaries	**(587)**	–
At the end of the year	**–**	508
Net book value:		
At 30 September	**–**	3,733

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19. INTANGIBLE ASSETS

	Technical know-how	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 October 2007	–	6,285	6,285
Acquired on acquisition of subsidiaries	5,542	–	5,542
Exchange alignment	132	–	132
At 30 September 2008 and 1 October 2008	5,674	6,285	11,959
Disposals	–	(6,285)	(6,285)
Exchange alignment	(21)	–	(21)
At 30 September 2009	**5,653**	**–**	**5,653**
Amortisation and impairment:			
At 1 October 2007	–	6,285	6,285
Charge for the year	597	–	597
Exchange alignment	3	–	3
At 30 September 2008 and 1 October 2008	600	6,285	6,885
Charge for the year	1,193	–	1,193
Released upon disposal	–	(6,285)	(6,285)
Exchange alignment	(8)	–	(8)
At 30 September 2009	**1,785**	**–**	**1,785**
Net book value:			
At 30 September 2009	**3,868**	**–**	**3,868**
At 30 September 2008	5,074	–	5,074

The Group's deferred development costs were amortised over the useful life of not exceeding five years, which had been fully depreciated in the previous years and they were disposed during the year.

The Group acquired the technical know-how through the acquisition of Beijing Enterprises Ever Source Limited and its subsidiaries (details as per note 42). The technical know-how is amortised on straight-line method over 10 years.

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20. INTERESTS IN SUBSIDIARIES

	2009	2008
	HK$'000	*HK$'000*
Unlisted shares, at cost	**43,437**	43,437
Amounts due from subsidiaries	**1,333,197**	1,220,197
Amounts due to subsidiaries	**(46,706)**	(32,768)
	1,329,928	1,230,866
Impairment losses recognised	**(230,888)**	(230,888)
	1,099,040	999,978
Amounts due from subsidiaries classified as current assets	**(100,000)**	–
Amounts due to subsidiaries classified as current liabilities	**46,706**	32,768
	1,045,746	1,032,746

At 30 September 2009 and 2008, the directors of the Company consider that the carrying amounts of the Company's balances with subsidiaries are unsecured, interest-free and recoverable/repayable on demand.

Details of the Company's subsidiaries at 30 September 2009 are set out in note 42 to the consolidated financial statements.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009	2008
	HK$'000	*HK$'000*
Unlisted investment, cost	**9,869**	9,869
Share of post acquisition result	**(302)**	(321)
Exchange alignment	**220**	226
Winding up	**(9,787)**	–
	–	9,774

Particulars of the Group's jointly controlled entity at 30 September 2008 were as follows:

Name	Place of incorporation/ registration and operations	Particulars of registered capital	Percentage of equity attributable to the Company	Principal activities
Xilinhot City Ever Source New Energy and Thermal Limited ("Xilinhot City ES")	the PRC	RMB20,000,000	52.8%	Sales, installation and maintenance of geothermal energy systems

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21. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The summarised financial information in respect of the Group's jointly controlled entity is set out below:

	2009	2008
	HK$'000	*HK$'000*
Total assets	–	18,592
Total liabilities	–	(91)
Net assets	–	18,501
The Group's share of net assets of the jointly controlled entity	–	9,774
Turnover	–	2
Profit/(Loss) for the period	**37**	(607)
Profit/(Loss) attributable to the Group	**19**	(321)

22. INTERESTS IN ASSOCIATES

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Share of net assets of associates	**34,212**	36,365
Goodwill	**482**	–
	34,694	36,365

		2009	2008
(a)	**Share of net assets of associates**		
	Unlisted shares at cost	**36,393**	36,393
	Acquisition of an associate	**402**	–
	Share of post acquisition result	**(228)**	(83)
	Acquisition of additional interest in an associate *(note)*	**(2,301)**	–
	Exchange alignment	**(54)**	55
		34,212	36,395
(b)	**Goodwill:**		
	At 1 October	–	–
	Acquisition of an associate	**484**	–
	Exchange alignment	**(2)**	–
		482	–

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22. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the Group's principal associates at 30 September 2009 are as follows:

Name	Place of incorporation/ registration and operations	Particulars of registered capital	Percentage of equity attributable to the Company	Principal activities
Beijing King Feng Ever Source Thermal Energy Scientific and Technology Development Limited ("King Feng")	the PRC	RMB6,000,000	46.67%	Development of heat technology
Ever Source Investment Management Company Limited	the PRC	RMB79,000,000	37.97%	Investment holding
北京愛華冷氣技術有限公司	the PRC	RMB1,426,100	48%	Development of cooling technology

Note:

On 26 March 2009, the Group acquired 53.33% equity interest in Beijing King Feng Ever Source Thermal Energy Scientific and Technology Development Limited ("King Feng"), a company established in the PRC and engaged in development of shallow ground energy ultilisation system in Beijing, the PRC, for a total consideration of RMB3,200,000 (equivalent to approximately HK$3,635,840). Prior to the acquisition, the Group held 46.67% interest in King Feng and this has been accounted for as interest in an associate. King Feng then became a wholly owned subsidiary of the Group subsequent to the acquisition. Details of the acquisition refer to note 43(a) to the consolidated financial statements.

On 25 July 2009, the Group had disposed of a wholly owned subsidiary of the Group, King Feng to an associate, Ever Source Investment Management Company Limited, for a consideration of RMB11,000,000 (equivalent to approximately HK$12,498,200). Details of the disposal refer to note 45(b) to the consolidated financial statements.

The summarised financial information in respect of the Group's associates is set out below:

	2009	2008
	HK$'000	*HK$'000*
Total assets	**101,973**	140,140
Total liabilities	**(12,094)**	(45,491)
Net assets	**89,879**	94,649
The Group's share of net assets of associates	**34,212**	36,365
Turnover	**5,088**	–
Loss for the year	**(393)**	(175)
Loss attributable to the Group	**(145)**	(83)

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For the year ended 30 September 2009

23. GOODWILL

	HK$'000
Cost:	
At 1 October 2007	37,737
Additions arising from acquisition of subsidiaries	906,862
At 30 September 2008 and 1 October 2008	944,599
Adjustments to measurement for acquisitions (note)	(160,000)
At 30 September 2009	784,599
Impairment:	
At 1 October 2007	36,468
Impairment loss recognised for the year	1,269
At 30 September 2008 and 1 October 2008	37,737
Impairment loss recognised for the year	161,429
At 30 September 2009	199,166
Carrying amount:	
At 30 September 2009	**585,433**
At 30 September 2008	906,862

For the year ended 30 September 2008, the additions of approximately HK$378,087,000 and HK$528,775,000 is attributable to the acquisitions (note 43(b&c) of (i) Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") which in turn together hold the entire equity interest of Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") (collectively refer to as the "Lisai Group"), the Lisai Group is engaged in environment protection business (cash generating unit of environment protection business) and (ii) Beijing Enterprises Ever Source Limited and its subsidiaries (the "HYY Group"), the HYY Group is engaged in shallow ground energy business (cash generating unit of shallow ground energy business) respectively.

An impairment of goodwill of approximately HK$161,429,000 was recognised during the year ended 30 September 2009 for the environmental protection business and approximately HK$1,269,000 was recognised during the year ended 30 September 2008 for the network solution related business since the directors of the Company consider that the recoverability of such goodwill is not feasible. The main factor contributing to the impairment of the goodwill attributable to the network solution related business and environmental protection business is that the actual cash flow generated from that was lower than expected.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

23. GOODWILL *(Continued)*

Impairment test for goodwill

The carrying amount of goodwill (net of accumulated impairment losses) at balance dates is attributable to the respective cash-generating units as follows:

	2009	2008
	HK$'000	*HK$'000*
Environment protection business	**56,658**	378,087
Shallow ground energy business	**528,775**	528,775
	585,433	906,862

The recoverable amount of the goodwill allocated to environment protection business and shallow ground energy business is assessed by reference to value-in-use model which based on a five years cash flow projection approved by the directors of the Company. A discount rate of approximately 13% per annum was applied in the value-in-use model when assessing the recoverability of the goodwill.

There are a number of assumptions and estimates involved for the preparation of the cash flow projection. Key assumptions included gross margin and discount rate which are determined by the management of the Group based on past performance and its expectation for market development. Gross margin are budgeted gross margin. The discount rate used is pre-tax and reflect specific risks relating to the industry.

Note:

In relation to the acquisition of Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") (note 43(b)), II Networks International Limited ("II Networks"), a wholly owned subsidiary of the Group and China Standard Limited ("China Standard") entered into an agreement dated 30 July 2007 and supplemental agreement dated 13 August 2007 ("Lisa Agreements").

Pursuant to the Lisa Agreements, in the event that the net profits after tax of Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") attributable to the shareholders of Shenzhen Lisai as shown in its audited financial statements is less than RMB 160,000,000 ("Guaranteed Profit") for the period of 24 months commencing from 1 October 2007 to 30 September 2009 ("Guaranteed Period"), China Standard shall (a) pay to II Networks an amount of cash (in Hong Kong dollars) equivalent to such shortfall means aggregate amount of (i) RMB 160,000,000 and (ii) the amount of the loss; (b) at the option of China Standard transfer to II Networks for no consideration the Lisai Convertible Notes (note 36) for such principal amount equivalent to such shortfall, within 30 days of the date on which the relevant audited financial statements of Shenzhen Lisai are made available to China Standard.

At the end of Guaranteed Period, Shenzhen Lisa cannot reach the Guaranteed Profit and such shortfall was deducted from the goodwill arising in the acquisition of Lidesui and Lisai Gardens.

Notes to the Consolidated Financial Statements

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24. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	HK$'000	*HK$'000*
Unlisted securities incorporated in the PRC:		
Equity securities, at cost *(note i)*	**487**	489
Equity securities, at fair value *(note ii)*	**24,371**	–
	24,858	489

Notes:

(i) The equity securities of which the fair value cannot be determined are measured at cost less impairment at each balance sheet dates because the range of reasonable fair value estimates is so significant that the opinion of the directors of the Company of the opinion that their fair values cannot be measured reliably.

(ii) The fair value of unlisted security in the PRC is determined by an independent professional valuer.

25. INVENTORIES

	2009	2008
	HK$'000	*HK$'000*
Raw materials	**56,527**	47,362
Work-in-progress	**8,991**	22,837
Finished goods	**7,284**	21,975
	72,802	92,174

All the inventories at the balance sheet dates are carried at cost.

26. HELD-FOR-TRADING FINANCIAL ASSETS

Held-for-trading financial assets comprise:

	2009	2008
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong	**1,625**	14,502

The fair values of listed securities in Hong Kong are determined based on the quoted market bid prices available on the relevant stock exchanges.

Notes to the Consolidated Financial Statements

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27. TRADE AND RETENTION RECEIVABLES

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

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

Notes:

i. The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers. The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers. The trade receivables credit term are generally on 30 to 180 days.

ii. Included in the trade and retention receivable balances are debtors with an aggregate carrying amount of approximately HK$725,000 (2008: HK$56,782,000) which are past due 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 are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2009	2008
	HK$'000	*HK$'000*
90 – 180 days	–	–
181 – 365 days	–	22,678
Over 365 days	**725**	34,104
Total	**725**	56,782

iii. The movement of the allowance for doubtful debts of trade and retention receivables is as follows:

	2009	2008
	HK$'000	*HK$'000*
At the beginning of the year	**17,280**	11,404
Provision of allowance for doubtful debts	**9,818**	7,183
Reversal of allowance for doubtful debts	**(4,156)**	(1,307)
At the end of the year	**22,942**	17,280

iv. All the balances of the trade and retention receivables are denominated in Renminbi.

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28. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	2009	2008
	HK$'000	*HK$'000*
Contracts in progress at the balance sheets:		
Contract cost incurred to date plus recognised profit less recognised loss	**505,182**	318,399
Less: progress billing received and receivable	**(366,303)**	(248,107)
	138,879	70,292
Analysed for reporting purpose:		
Amounts due from customers for contract works	**171,601**	88,596
Amounts due to customers for contract works	**(32,722)**	(18,304)
	138,879	70,292

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Prepayments	**9,947**	21,840
Deposits	**110,919**	4,560
Other receivables *(Note)*	**185,647**	74,495
	306,513	100,895

Note:

Included in the other receivables, amount of HK$160,000,000 represented compensation receivable from China Standard arising from the Guaranteed Profit by Shenzhen Lisa. At 30 September 2009, China Standard is liable to pay for the shortfall within 30 days when the relevant audited financial statements were made available to China Standard either by cash or transfer Lisai Convertible Notes to the Group at no consideration pursuant to Lisa Agreements (note 23).

At the date of approval of this consolidated financial statements, China Standard has not state the method of payment for such shortfall. And the directors considered that it is an appropriate way to recognise a receivable at year end which were approximate to its fair value.

30. AMOUNTS DUE FROM MINORITY SHAREHOLDERS/AMOUNT DUE FROM AN ASSOCIATE

The amounts are unsecured, interest-free and recoverable on demand.

Notes to the Consolidated Financial Statements

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31. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**131,631**	120,041	**41,103**	68,335

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 September 2009, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$67,044,000 (2008: HK$37,431,000), which are deposits with banks in the PRC.

32. TRADE AND BILLS PAYABLES

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

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

33. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2009	2008
	HK$'000	*HK$'000*
Accrued liabilities	**4,833**	7,482
Deposits received	**29,138**	11,498
Other payables	**49,187**	79,226
	83,158	98,206

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34. INTEREST-BEARING BANK AND OTHER LOANS

	2009	2008
	HK$'000	*HK$'000*
Secured bank loans	–	19,102
Unsecured other loans	6,800	17,242
	6,800	36,344
The maturity of the above loan is as follows:		
Within one year	1,133	36,344
Between one and two years	5,667	–
	6,800	36,344
Less: Amounts due within one year shown under current liabilities	(1,133)	–
Amounts due after one year shown under non-current liabilities	5,667	36,344

Notes:

i. At 30 September 2008, the Group's secured bank loans and other bank facilities were secured by (a) charges on the Group's bank deposits of approximately HK$ Nil, (b) legal charges on the Group's leasehold land, leasehold buildings, and plant and machinery with carrying values of approximately HK$3,733,000, HK$9,550,000 and HK$4,783,000 respectively, and (c) guarantees by a director of a subsidiary of the Company and 江蘇吳江農村商業銀行服務股份有限公司.

ii. At 30 September 2008, all bank loans of the Group were fixed interest rate bank loans with maturity date on or before the end of April 2009. The interest rates of the Group's bank loans ranged from 6.68% to 6.85% per annum.

iii. At 30 September 2009, the other loans of the Group are unsecured, bearing interest ranged from 6% to 7.56% (2008: 12%) per annum.

iv. At 30 September 2008, the balances of the other loans included the borrowings of approximately HK$23,000 from certain directors of the subsidiaries of the Company. The interest expenses incurred to these directors of the Company's subsidiaries during the year amounted to approximately HK$2,000.

35. AMOUNTS DUE TO MINORITY SHAREHOLDERS/AMOUNTS DUE TO ASSOCIATES

The amounts are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

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36. CONVERTIBLE NOTES

On 7 November 2007, the Company issued zero coupon convertible notes in the principal amount of HK$160,000,000 ("Lisai Convertible Notes") to third parties as part of the consideration for the acquisition of the entire equity interest in Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited. The Lisai Convertible Notes will be matured on 6 November 2012. The note holder may convert the whole or part of the Lisai Convertible Notes into shares of the Company at an initial conversion price of HK$0.3 per share. The effective interest rate of the liabilities component of the Lisai Convertible Notes is approximately 9.896%.

On 31 March 2008, the Company issued zero coupon convertible notes in the principal amount of HK$204,000,000 ("HYY Convertible Notes") to third parties as part of consideration for the acquisition of the entire equity interest in Beijing Enterprises Ever Source Limited. The HYY Convertible Notes will be matured on 30 March 2013. The note holder may convert the whole or part of the HYY Convertible Notes into shares of the Company at an initial conversion price of HK$0.3 per share. The effective interest rate of the liabilities component of HYY Convertible Notes is approximately 11.936%.

The convertible notes contain two components, liabilities and equity elements. The fair value of the liability component included in non-current liabilities, was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance represented the equity component is included in shareholders' equity named as convertible notes reserves.

	Lisai Convertible Notes	**HYY Convertible Notes**	**Total**
	HK'000	*HK'000*	*HK$'000*
Issue of convertible notes *(note)*	160,000	204,000	364,000
Equity component	(60,210)	(87,910)	(148,120)
Liability component at date of issue	99,790	116,090	215,880
Imputed interest charged	8,877	6,966	15,843
Liability component as at 30 September 2008	108,667	123,056	231,723
Imputed interest charged	10,775	14,645	25,420
Liability component as at 30 September 2009	119,442	137,701	257,143

Note:

In the event that Shenzhen Lisai can not reach the Guaranteed Profit as mentioned in Lisai Agreements (note 23), China Standard shall pay the shortfall in form of cash or transfer to II Networks the Lisai Convertible Notes at no consideration within 30 days when the relevant audited financial statements were made available to China Standard.

When China Standard chooses to transfer the Group Lisai Convertible Notes at no consideration, in accordance with the terms of Convertible Notes, to the extent required by loan, the Convertible Notes or such part thereof assigned or transferred to II Networks shall be cancelled. Upon cancellation of the convertible notes, a gain or loss on cancellation of convertible notes will be derived from the difference between carrying amounts of liability components and their fair values. The equity component and deferred tax liabilities in relation to the convertible notes are released to accumulated losses.

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37. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon:

	Convertible notes
	HK$'000
At 1 October 2007	–
Issue of convertible notes	24,440
Credited to consolidated income statement for the year	(2,614)
At 30 September 2008 and 1 October 2008	21,826
Credited to consolidated income statement for the year	(4,195)
At 30 September 2009	**17,631**

At the balance sheet date, the Group has unused estimated tax losses of approximately HK$182,479,000 (2008: HK$174,247,000) that are available for offsetting against future taxable profits of those companies which incurred the losses. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Company

No deferred tax asset has been recognised in respect of estimated tax losses of approximately HK$17,631,000 (2008: HK$15,344,000) at 30 September 2009 due to the unpredictability of future profit streams.

38. DEFERRED INCOME

	2009	2008
	HK$'000	*HK$'000*
Deferred income	**25,179**	9,989

For the year ended 30 September 2009, certain subsidiaries of the Group are entitled to government grants of approximately HK$16,004,000 (2008: HK$10,372,000) arising from the purchase of plant and equipment for marsh gas treatment and energy saving project. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as deferred income and amortised over the estimated useful life of the related plant and equipment acquired. During the year, deferred income of approximately HK$859,000 (2008: HK$383,000) was amortised and recognised in the income statement.

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39. SHARE CAPITAL

The Group and the Company

	Number of ordinary shares		Par value			
	2009	2008	**2009**		2008	
	'000	*'000*	***US$'000***	***HK$'000***	*US$'000*	*HK$'000*
Authorised (ordinary share of US$0.01 each):						
At beginning of year	**8,000,000**	5,000,000	**80,000**	**624,000**	50,000	390,000
Increase in authorised share capital *(note i)*	–	3,000,000	–	–	30,000	234,000
At end of year	**8,000,000**	8,000,000	**80,000**	**624,000**	80,000	624,000
Issued and fully paid:						
At beginning of year	**5,653,112**	2,957,360		**440,935**		230,667
Issuance of shares for acquisition of subsidiaries *(note ii)*	–	1,500,000		–		117,000
Placing of shares *(note iii)*	**1,100,000**	1,190,752		**85,800**		92,878
Exercise of share options *(note iv)*	–	5,000		–		390
At end of year	**6,753,112**	5,653,112		**526,735**		440,935

Notes:

(i) As per the resolution by the shareholders of the Company at the extraordinary general meeting on 10 December 2007, it was resolved that the increase of the authorised share capital of the Company from US$50,000,000 divided into 5,000,000,000 shares of US$0.01 each to US$80,000,000 divided into 8,000,000,000 shares of US$0.01 each by the creation of an additional of 3,000,000,000 share of US$0.01 each.

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39. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(ii) On 7 November 2007, the Group acquired entire equity interest of Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") for an aggregate consideration of HK$392,634,000, of which, 500,000,000 ordinary shares of the Company with par value of US$0.01 each were issued as part of the consideration for the acquisition. The fair value of 500,000,000 ordinary shares of the Company, determined using the published price available of the date of acquisition, amounted to HK$150,000,000.

On 31 March 2008, the Group acquired entire equity interest of Beijing Enterprises Ever Source Limited ("HYY") for an aggregate consideration of HK$607,529,000, of which, 1,000,000,000 ordinary shares of the Company with par value of US$0.01 each were issued as part of the consideration for the acquisition. The fair value of 1,000,000,000 ordinary shares of the Company, determined using the published price available of the date of acquisition, amounted to HK$200,000,000.

(iii) On 25 May 2009, the Company allotted and issued an aggregate of 1,100,000,000 shares by way of placing to independent investors at a price of HK$0.078 per share. The net proceeds of approximately HK$85,800,000 were used for general working capital of the Group.

On 31 March 2008, the Company allotted and issued an aggregate of 800,000,000 shares by way of placing to i) certain funds, sub funds or accounts that AIG Global Investment Corporation (Asia) Limited is acting for as investments manager or investment advisor and ii) certain funds, sub funds or accounts that Value Partners Limited is acting for as investments manager or investment advisor at a price of HK$0.25 per share. The net proceeds of approximately HK$199,900,000 were used to finance the acquisition entire equity interest of HYY.

On 9 October 2007, the Company allotted and issued an aggregate of 390,752,000 shares by way of placing to independent investors at a price of HK$0.198 per share. The net proceeds of approximately HK$75,000,000 were used to finance the acquisition entire equity interest of Lidesui and Lisai Gardens.

(iv) During the year ended 30 September 2008, Mr. Wu Shun Min – the executive director of the Company exercised his option rights to subscribe for an aggregate of 5,000,000 shares at an exercise price of HK$0.15 per share. The net proceeds from the exercise of option rights amounted to HK$750,000.

40. SHARE OPTION SCHEME

The principal purpose of the share option schemes of the Company is to recognize the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentive to these persons to continue to contribute to the Group's long term success and prosperity. The Company has a share option plan adopted on 7 January 2000 and a share option plan adopted on 22 November 2001.

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40. SHARE OPTION SCHEME *(Continued)*

(a) Pre-IPO Share Option Plan

On 7 January 2000, the Company adopted an employee share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan was valid and effective for a period not exceeding eight years commencing from 7 January 2000. The Pre-IPO Share Option Plan has expired and was no longer existed.

(b) Share Option Plan

On 22 November 2001, the Company adopted a share option scheme (the "Share Option Plan") conditionally upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. The Share Option Plan became valid and effective on 30 November 2001 and, unless otherwise cancelled or amended, will remain in force for a period of ten years commencing from the date of adoption.

Under the Share Option Plan, the grantees may include (i) any fully-time employee, director (including non-executive director and independent non-executive director) and part-time employee with weekly working hours of 15 hours and above of the Company and any of its subsidiaries; (ii) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (iii) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria. No option may be granted to any one person which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding one percent of the number of the shares of the Company in issue in any 12-month period up to the date of grant. Any further grant of options in excess of the one percent limit must be subject to shareholders' approval, with that participant and his associates abstaining from voting.

The maximum number of shares in respect of which options may be granted under the Share Option Plan and any other share option scheme of the Company is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, excluding for this purpose shares issued upon the exercise of options granted under the Share Option Plan or any other share option scheme. At 30 September 2009, the number of shares issuable under share options granted under the Share Option Plan was 588,700,000, which represented approximately 8.7% of the Company's shares in issue as at that date.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

40. SHARE OPTION SCHEME *(Continued)*

(b) Share Option Plan *(Continued)*

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other schemes must not exceed 30% of the shares of the Company from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of director, and commences on any date after the date of grant and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Share Option Plan, if earlier.

The exercise price of share options is determined by the board of director, but may not be less than the higher of (i) the closing price of the Company's shares on the GEM of the Stock Exchange on the date of grant of the option; (ii) the average of the closing prices of the Company's shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares of the Company.

The following share options were outstanding under the Share Option Plan during the year:

	Number of share options outstanding under the Share Option Plan												
	Outstanding as at 1 October 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 September 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 September 2009	Exercisable as at 30 September 2009	Date of grant	Exercise period	Exercise price *HK$*
Directors													
Mr. Wu Shu Min	10,000,000	–	–	–	10,000,000	–	–	–	10,000,000	10,000,000	07-03-2002	07-03-2002 to 21-12-2011	0.465
	3,000,000	–	–	–	3,000,000	–	–	–	3,000,000	3,000,000	05-06-2003	05-06-2003 to 21-12-2011	0.078
	–	–	–	–	–	55,000,000	–	–	55,000,000	55,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Ms. Chan Wai Kay Katherine	–	–	–	–	–	55,000,000	–	–	55,000,000	55,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Mr. Xu Shengheng	–	–	–	–	–	55,000,000	–	–	55,000,000	55,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Mr. Soo Kim Fui Geffrey	–	–	–	–	–	35,000,000	–	–	35,000,000	35,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Mr. Fu Hui Zhong	–	–	–	–	–	15,000,000	–	–	15,000,000	15,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Ms. Chan Man Kuen Laura	–	–	–	–	–	5,000,000	–	–	5,000,000	5,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Mr. Jia Wenzeng	–	–	–	–	–	5,000,000	–	–	5,000,000	5,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

40. SHARE OPTION SCHEME *(Continued)*

(b) Share Option Plan *(Continued)*

	Number of share options outstanding under the Share Option Plan *(Continued)*												
	Outstanding as at 1 October 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 September 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 September 2009	Exercisable as at 30 September 2009	Date of grant	Exercise period	Exercise price *HK$*
Mr. Chow Wan Hoi Paul	–	–	–	–	–	5,000,000	–	–	5,000,000	5,000,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
Mr. Xu Zhi Feng	1,000,000	–	–	–	1,000,000	–	–	(1,000,000)	–	–	05-06-2003	05-06-2003 to 21-12-2011	0.078
	14,000,000	–	–	–	14,000,000	230,000,000	–	(1,000,000)	243,000,000	243,000,000			
Other employees													
In aggregate	800,000	–	–	–	800,000	–	–	(500,000)	300,000	300,000	01-03-2002	01-03-2002 to 21-12-2011	0.475
	12,500,000	–	–	–	12,500,000	–	–	(1,500,000)	11,000,000	11,000,000	29-05-2007	29-05-2007 to 21-12-2011	0.214
	–	–	–	–	–	334,400,000	–	–	334,400,000	334,400,000	23-06-2009	23-06-2009 to 21-12-2011	0.0826
	27,300,000	–	–	–	27,300,000	564,400,000	–	(3,000,000)	588,700,000	588,700,000			

At the balance sheet date, the Company had 588,700,000 (2008: 27,300,000) share options outstanding under the Share Option Plan.

The exercise in full of the outstanding share options under the Share Option Plan would, under the present capital structure of the Company, result in the issue of 588,700,000 additional ordinary shares and cash proceeds to the Company of approximately HK$53,999,940, before related issuing expense.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

40. SHARE OPTION SCHEME *(Continued)*

(b) Share Option Plan *(Continued)*

The fair value of the share options granted during the year ended 30 September 2007 and 30 September 2009 are HK$0.155761 and HK$0.0467 respectively. According to the Trinomial Option Pricing Model, the value and adjusted value of the options granted during the year ended 30 September 2009 are as follows:

Date of granted:	29 May 2007	23 June 2009
Total number of share options:	12,500,000	564,400,000
Option value:	HK$0.155761	HK$0.0467
Variables		
– Maturity date	21 December 2011	21 December 2011
– Risk free rate *(note)*	4.321%	1.787%
– Stock price at the date of grant	HK$0.214	HK$0.0820
– Exercise price	HK$0.214	HK$0.0826
– Volatility	96.84%	115.15%
– Expected ordinary dividend	Nil	Nil

Note: For the options granted on 30 September 2009, risk free rate was based on the yield of Exchange Fund Notes of comparable term issued by the Hong Kong Monetary Authority.

41. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 33 and 34.

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 GEM of the Stock Exchange (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.

In accordance with the relevant 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 to the Consolidated Financial Statements

For the year ended 30 September 2009

41. RESERVES *(Continued)*

(b) The Company

	Share premium	Convertible notes reserve	Share-based payment reserves	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2007	90,787	–	779	(244,118)	(152,552)
Issuance of shares for acquisition of subsidiaries	233,000	–	–	–	233,000
Exercise of share options	360	–	–	–	360
Placing of new shares	184,490	–	–	–	184,490
Cost of placing of new shares	(2,041)	–	–	–	(2,041)
Issuance of convertible notes	–	148,120	–	–	148,120
Deferred tax	–	(24,440)	–	–	(24,440)
Net loss for the year	–	–	–	(13,598)	(13,598)
At 30 September 2008 and 1 October 2008	506,596	123,680	779	(257,716)	373,339
Cost of placing of new shares	(507)	–	–	–	(507)
Grant of share option	–	–	26,357	–	26,357
Net loss for the year	–	–	–	(59,666)	(59,666)
At 30 September 2009	**506,089**	**123,680**	**27,136**	**(317,382)**	**339,523**

The share premium of the Company 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 shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries pursuant to the Reorganisation. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in position to pay off its debts as and when they fall due in the ordinary course of business.

Notes to the Consolidated Financial Statements

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
II Networks International Limited####	BVI	16,666,667 ordinary shares of US$0.01 each	100%	–	Investment holding and trading of security
IIN Network Technology Limited	Hong Kong	400,000,000 ordinary shares of HK$0.005 each	–	100%	Investment holding
Far High International Limited####	BVI	1 ordinary shares of US$1 each	–	100%	Investment holding
Wujiang Shengxin Optoelectronics Technology Co., Limited##	the PRC	RMB22,350,000	–	51%	Manufacturing and sale of communication cables and optical cables
Shenzhen Lisai Industrial Development Company Limited###	the PRC	RMB30,000,000	–	100%	Provision of environment protection solutions
Beijing Enterprises Ever Source Limited####	BVI	US$37,562	–	100%	Investment holding
Beijing Enterprises Ever Source (Hong Kong) Limited####	BVI	HK$198	–	100%	Investment holding
Beijing Enterprises Ever Source Technology Limited####	Cayman Islands	HK$2,170,000	–	100%	Investment holding
北京永源熱泵有限責任公司(Beijing Ever Hot Pumps Co., Ltd.)###	the PRC	US$300,000	–	100%	Production and sales of machineries geothermal energy systems
北京北控恒有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Company Limited)###	the PRC	US$3,000,000	–	99.97%	Technical know-how holding
北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited)###	the PRC	RMB1,000,000	–	94.58%	Property management and technical support service

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
恒有源科技發展有限公司 (Ever Source Scientific and Technology Development Co., Ltd)##	the PRC	RMB189,188,502	–	94.58%	Production and sales of geothermal energy systems
北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited)###	the PRC	RMB50,000,000	–	94.58%	Installation of energy systems

registered as wholly-foreign owned enterprises under the PRC law.

registered as Sino-foreign joint ventures under the PRC law and was disposed on 8 September 2009 (detail as per note 45).

registered as a limited liability company under the PRC law.

registered as a limited liability company under the by-laws of the British Virgin Islands.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

43. ACQUISITIONS OF SUBSIDIARIES

(a) On 26 March 2009, the Group acquired 53.33% equity interest in Beijing King Feng Ever Source Thermal Energy Scientific and Technology Development Limited ("King Feng"), a company established in the PRC and engaged in development of shallow ground energy utillisation system in Beijing, the PRC, for a total consideration of RMB3,200,000 (equivalent to approximately HK$3,635,840). Prior to the acquisition, the Group held 46.67% interest in King Feng and this has been accounted for as interest in an associate. King Feng then became a wholly owned subsidiary of the Group subsequent to the acquisition.

The fair value of the identifiable assets and liabilities acquired in the transaction and the goodwill arising there from are as follows:

	Carrying amounts before the acquisition	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	28	–	28
Inventories	4,472	–	4,472
Trade receivables	1,066	–	1,066
Deposits, prepayment and other receivables	123	–	123
Amount due from a shareholder	2,356	–	2,356
Cash and bank balances	4,850	–	4,850
Deposits received, accrued and other liabilities	(7,964)	–	(7,964)
Net assets acquired	4,931	–	4,931
Interest in an associate held prior to the acquisition			(2,301)
Goodwill			1,006
			3,636
Consideration satisfied by:			
Cash			3,636
Net cash inflow in respect of the acquisition of subsidiary:			
Cash consideration paid			(3,636)
Bank balances and cash acquired			4,850
			1,214

The subsidiary acquired during the year did not contribute significantly to the Group's results and cash flows.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens")

During the year ended 30 September 2008, the Group acquired the following subsidiaries from independent third parties.

On 7 November 2007, the Group acquired the environment protection business by acquiring the entire equity interest of Lidesui and Lisai Gardens which in turn together hold the entire equity interest of Shenzhen Lisai with total consideration of HK$392,634,000. The fair value of the identifiable assets and liabilities acquired in the transaction and the goodwill arising there from are as follows:

	Carrying amounts before the acquisition	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	13,711	–	13,711
Inventories	396	–	396
Trade receivables	13,952	–	13,952
Deposits, prepayment and other receivables	2,672	–	2,672
Amount due from shareholders	2,184	–	2,184
Cash and bank balances	816	–	816
Trade payables	(5,281)	–	(5,281)
Deposits received, accrued and other liabilities	(8,641)	–	(8,641)
Borrowings	(3,182)	–	(3,182)
Amount due to a related company	(2,080)	–	(2,080)
Net assets acquired	14,547	–	14,547
Goodwill			378,087
			392,634
Consideration satisfied by:			
Cash			82,184
Fair value of shares issued			150,000
Issue of convertible notes			160,000
Transaction cost directly attributable to this acquisition			450
Total consideration			392,634

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(b) Acquisition of Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") *(Continued)*

	HK$'000
Net cash outflow in respect of the acquisition of subsidiaries:	
Cash consideration paid	(82,184)
Transaction cost paid	(450)
Bank balances and cash acquired	816
	(81,818)

As part of the consideration for the acquisition, 500,000,000 ordinary shares of the Company with par value of US$0.01 each were issued. The fair value of issued ordinary shares of the Company, determined using the published price available at the date of acquisition of HK$0.30 per share, amounted to HK$150,000,000.

During the year ended 30 September 2008, the Lidesui and Lisai Gardens contributed approximately HK$28,826,000 to the Group's turnover and profit after taxation of approximately HK$3,997,000 to the Group's profit for the year.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(c) Acquisition of the Beijing Enterprises Ever Source Limited

On 31 March 2008, the Group acquired the shallow ground energy business by acquiring the entire equity interest of Beijing Enterprises Ever Source Limited ("HYY") with total consideration of HK$607,529,000. The fair value of the identifiable assets and liabilities of the HYY and its subsidiaries (the "HYY Group") at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amounts before the acquisition	Fair value adjustment	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	20,459	–	20,459
Interest in a jointly controlled entity	9,869	–	9,869
Interests in associates	2,283	–	2,283
Intangible assets	5,542	–	5,542
Available-for-sales financial assets	478	–	478
Inventories	73,029	–	73,029
Held-for-trading financial assets	74,606	–	74,606
Trade and retention receivables	51,390	–	51,390
Amounts due from customers for contract works	74,173	–	74,173
Deposits, prepayment and other receivables	24,697	–	24,697
Amounts due from associates	15	–	15
Amounts due from minority shareholders	6,557	–	6,557
Cash and bank balances	42,681	–	42,681
Tax prepaid	105	–	105
Trade and bills payables	(44,490)	–	(44,490)
Amounts due to customers for contract works	(21,682)	–	(21,682)
Deposits received, accrued and other liabilities	(51,330)	–	(51,330)
Amounts due to associates	(86)	–	(86)
Amounts due to minority shareholders	(3,979)	–	(3,979)
Borrowings	(147,778)	–	(147,778)
Deferred income	(4,444)	–	(4,444)
Net assets acquired	112,095	–	112,095
Minority interest			(33,341)
Goodwill			528,775
			607,529

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

(c) Acquisition of the Beijing Enterprises Ever Source Limited *(Continued)*

	HK$'000
Consideration satisfied by:	
Cash	200,000
Fair value of shares issued *(note)*	200,000
Issue of convertible notes	204,000
Transaction cost directly attributable to this acquisition	3,529
Total consideration	607,529
Net cash outflow in respect of the acquisition of subsidiaries:	
Cash consideration paid	(200,000)
Transaction cost paid	(3,529)
Bank balances and cash acquired	42,681
	(160,848)

Note: As part of the consideration for the acquisition, 1,000,000,000 ordinary shares of the Company with par value of US$0.01 each were issued. The fair value of issued ordinary shares of the Company, determined using the published price available at the date of acquisition of HK$0.20 per share, amounted to HK$200,000,000.

During the year ended 30 September 2008, HYY Group contributed approximately HK$76,095,000 to the Group's turnover and profit after taxation and minority interests of approximately HK$29,012,000 to the Group's profit for the year.

If the above acquisitions had been completed on 1 October 2007, total restated turnover and profit of the Group for the year 2008 would have been HK$267,679,000 and HK$8,210,000 respectively. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue an results of the Group that actually would have been achieved had the acquisition been completed on 1 October 2007, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

44. WINDING UP OF SUBSIDIARIES

For the year ended 30 September 2008, two wholly owned subsidiaries of the Group, Hunan IIN-Galaxy Software Development Company Limited and Hunan IIN Technologies Engineering Company Limited, were voluntarily wound up. The net assets and liabilities of the subsidiaries at the date of winding up were as follows:

	HK$'000
Net assets and liabilities:	
Other receivables	15
Other payables	(1,950)
Amounts due to intercompany	(21,098)
	(23,033)
Release of translation reserve	908
	(22,125)
Waiver of amounts due to intercompany	21,098
Gain on winding up of subsidiaries	1,027
	–

The subsidiaries wound up in the current period did not have significant contribution to the Group's revenue and operating results for the period.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

45. DISPOSAL OF SUBSIDIARIES

(a) On 8 September 2009, the Group had disposed of an indirectly wholly-owned subsidiary of the Group, Future Frontier ("FFL") and its subsidiary Wuijing Shengxin Optoelectronics Technology Company Limited (collectively referred to as the "FFL Group") to independent third party. Summary of the effect of the disposal of the subsidiaries is as follows:

	HK$'000
Net assets and liabilities disposed of:	
Property, plant and equipment	17,682
Prepaid land lease payments	3,640
Inventories	1,463
Trade and retention receivables	58,332
Prepayments, deposits and other receivables	9,732
Amounts due from directors	680
Cash and cash equivalents	3,374
Trade and bills payables	(27,631)
Accrued liabilities, deposits received and other payables	(13,182)
Amounts due to a former shareholder	(9,862)
Amounts due to directors	(11,762)
Amount due to minority interests	(808)
Interest-bearing bank and other loans	(29,743)
Minority interests	(11,384)
	(9,469)
Amount due from the Group assigned to the purchaser	9,862
Release of translation reserve	(515)
	(122)
Gain on disposal of subsidiaries	2,122
Total consideration	2,000
Satisfied by:	
Cash consideration received	2,000
Net cash outflow arising on disposal:	
Cash consideration received	2,000
Cash and cash equivalents disposed of	(3,374)
	(1,374)

During the year 30 September 2009, FFL Group contributed approximately HK$84,319,445 to the Group's revenue and a loss of approximately HK$3,766,000 to the Group's loss for the year.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 25 July 2009, the Group had disposed of a wholly owned subsidiary of the Group, King Feng to an associate, Ever Source Investment Management Co., Ltd., for a consideration of RMB11,000,000 (equivalent to approximately HK$12,498,200). A gain on disposal of approximately HK$6,083,000 arose from this disposal. Summary of the effect of the disposal of the subsidiary is as follows:

	HK$'000
Net assets and liabilities disposed of:	
Property, plant and equipment	25
Inventories	2,000
Trade and retention receivables	1,435
Prepayments, deposits and other receivables	129
Amounts due from a former shareholder	2,417
Cash and cash equivalents	3,673
Trade and bills payables	(33)
Accrued liabilities, deposits received and other payables	(4,210)
	5,436
Minority interest	(27)
Goodwill	1,006
	6,415
Gain on disposal	6,083
Total consideration	12,498
Satisfied by:	
Cash consideration received	12,498
Net cash inflow arising on disposal:	
Cash consideration received	12,498
Cash and cash equivalents disposed of	(3,673)
	8,825

The subsidiary disposed of during the year did not contribute significantly to the Group's results and cash flows.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

(c) On 21 May 2008, the Group had disposed of a non-wholly owned subsidiary of the Group, Hubei IIN-Galaxy Network Company Limited to independent third parties. Summary of the effect of the disposal of the subsidiary is as follows:

	HK$'000
Net assets and liabilities disposed of:	
Cash and bank balances	3
Other payables	(1,230)
Amounts due to intercompany	(1,816)
	(3,043)
Release of translation reserve	167
	(2,876)
Gain on disposal	946
Total consideration	(1,930)
Satisfied by:	
Cash paid	(114)
Amounts due to intercompany	(1,816)
	(1,930)
Net cash outflow arising on disposal:	
Cash paid	(114)
Cash and bank balances	(3)
	(117)

The subsidiary disposed of in the current period did not have significant contribution to the Group's revenue and operating results for the period.

46. MAJOR NON-CASH TRANSACTIONS

The settlement of shortfall in respect of profit guarantee under sales and purchase agreement dated 31 July 2007 during the year ended 30 September 2009 is offset against early cancellation of Lisai Convertible Notes in note 36 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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47. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date (2008: Nil).

48. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to thirty years. None of the leases include contingent rentals.

At 30 September 2009, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarter falling due as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within one year	**7,867**	7,868
In the second to fifth year inclusive	**13,679**	18,303
After fifth year	**36,374**	39,665
	57,920	65,836

49. CAPITAL COMMITMENTS

At the balance sheet dates, the Group had the following outstanding capital commitments:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Contracted but not provided for		
– Capital injection in an associate	**14,175**	12,507
– Purchase of property, plant and equipment	**1,587**	–
	15,762	12,507

Notes to the Consolidated Financial Statements

For the year ended 30 September 2009

50. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year ended 30 September 2009, the Group had entered into the following significant related party transactions:

(a) During the year, the Group entered into the following transactions with its minority shareholder and its associate:

	2009	2008
	HK$'000	*HK$'000*
Operating lease payments paid to a minority shareholder	**2,656**	2,063
Disposal of property, plant and equipment to a minority shareholder	**23,971**	–
Disposal of property, plant and equipment to associates	**17,267**	–
Consideration received from disposal of subsidiary to an associate *(note 45b)*	**12,498**	–
	56,392	2,063

(b) Compensation of key management personnel

The remunerations of directors and other members of key executives are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	**6,179**	3,838
Share-based payment expenses	**10,737**	–
Pension scheme contributions	**24**	104
	16,940	3,942

Details of the balances with related parties as at the balance sheet dates are set out in notes 30 and 35 to the consolidated financial statements.

51. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 December 2009.