CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

ANNUAL REPORT

2009/10

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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

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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AUDITORS

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33 Hysaw Avenue
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STOCK CODE

8128

COMPANY WEBSITE

www.iini.com

Chairman's Statement

To all Shareholders:

On behalf of the board of directors (the "Board") of China Ground Source Energy Limited ("the Company"), I'm pleased to report to all the shareholders on the final results of the Company and its subsidiaries (collectively referred to as "CGS" or the "Group") for the six months ended 31 March 2010. As the Company had passed a resolution to change its financial year end date at the beginning of this year, the final results only cover the six months period from 1 October 2009 to 31 March 2010 (the "Review Period"). During the Review Period, the Group recorded a loss attributable to equity holders of the Company of approximately HK$46.4 million, and the Group's turnover amounted to HK$180.8 million, representing an increase of 10% over the six months period ended 31 March 2009, but excluding the operating income from the transmission business disposed at the end of last year for the corresponding period of last year, the revenue for the Review Period in fact increased by approximately 44% over the corresponding period of last year, while such amount recorded for the twelve months ended 30 September 2009 was approximately HK$365.7 million.

In view that certain operation licenses of Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai") will successively expire at the end of this year and in the next year and be subject to renewal, and considering that the past performance of such business was not quite satisfactory, the Board had made full provision for impairment on the goodwill and assets of Shenzhen Lisai, which amounted to a total of approximately HK$79.8 million. Excluding the relevant factors, the Group's operational performance during the Review Period has maintained steady growth momentum. The loss mainly caused by the impairment provision was of non-cash and non-recurring in nature and no material adverse effect is expected to the Group's cash flow.

The Company's existing businesses include the shallow ground energy utilisation business operated by Ever Source Scientific and Technology Development Co., Ltd. ("HYY") and the environmental protection business operated by Shenzhen Lisai, both subsidiaries of the Group. For the Review Period, the shallow ground energy utilisation business represented approximately 90% of our total revenues, which is expected to continue to make steady development and remain the core business and main income source of the Group.

As stated in the previous announcements of the Company, benefited from the current inclination and support of China policy towards environmental protection industry and the continuous efforts on the promotion of shallow ground energy utilisation and exploration of new business opportunities in various regions by the Group, the Company had entered into cooperation agreements with the government of Xinbin Manchu Autonomous County and the government of Wafangdian City respectively. Through cooperation with these local governments, we are committed to promote the development of national new energy usage model county/city centering on the adoption of ground source energy heat as an alternative source of energy for heating, and to incorporate the cooling and heating sources of the HYY ground source energy heat pump systems into regional planning in city developments and make such system as part of the city's infrastructure, so that the system will be the cooling and heating system for future buildings. These initiatives will award HYY with first-mover advantage and enhance the model effect of ground source energy heat as an alternative source of energy for heating. Furthermore, the entering of such agreements is anticipated to greatly enhance the coverage of ground source energy as alternative source of energy for heating systems, so as to further boost the development of our business.

In addition, another cooperation agreement was signed between the Group and the Government of Wafangdian City in May 2010 for constructing the main district in the coastal economic area of Wafangdian City (the "Main District") as an ecological low-carbon model district. The total area for construction as an ecological low-carbon model district is approximately 22.4 square kilometers. The Group shall assist in land development in the Main District by facilitating to formulate the overall planning of land use in Wafangdian City and the blueprints of the land use planning, city overall planning, and controls planning and energy planning in the Main District, so as to set an example for the utilisation of ground source energy as a new substitute energy to provide heating for buildings. This will offer new potential for the development of the Group's businesses and enable the Group to participate in the early stage of land development and the construction of demo property projects of ecological low-carbon centering on the utilisation of ground source energy.

China is a big nation boasting of a tremendous amount of construction projects underway. Hence it is one of the priorities for the government to implement an energy-saving plan for building constructions. Last year, the Ministry of Finance and the Ministry of Housing and Urban-Rural Development of China had announced that construction of property demonstration projects with application of renewable energy would be carried out in cities. Based on counties and cities as a unit, the demonstration of application of new energy will be promoted in both rural and urban areas. The Group expects that China will step up the development and utilisation of shallow ground energy in the construction sector to promote ground energy as substitute energy for heating and further encourage energy conservation and emission reduction in the future. The construction of ecological

Chairman's Statement

low-carbon model district in Wafangdian City has driven the Company to make the decisive foothold in the active promotion of utilisation of ground energy as substitute energy for heating. We believe these opportunities are bound to lay solid and successful foundation for the future development of the Company.

Moreover, the Group made strategic adjustment in manufacturing process this May by introducing Beijing BeiJi Mechanical Industrial Company Limited (北京北機機電工業有限責任公司) ("Beijing BeiJi"), a wholly-owned subsidiary of China Southern Industrial Group (中國南方工業集團), to establish the joint venture Beijing Ever Hot Pumps Co., Ltd (北京永源熱泵有限責任公司) ("BEHP") which mainly engages in the production of ground energy heat pump mechanical units. With the cooperation with Beijing BeiJi, we aim to expand BEHP's existing production scale and improve its production capacity and efficiency and reduce product price, so as to meet the future market demand and enhance the profitability of the Company. BEHP will also be benefited through the introduction of personnel, management, technology and quality assurance that are possessed by Beijing BeiJi to expand the market share of BEHP, as well as create synergies for the future development of the Company.

As China will pay much attention to the development of low-carbon economy in the future, the Group will further expand the CDM carbon dioxide reduction business and participate in the international low-carbon transactions through HYY's business which promotes the utilisation of the ground source energy as substitute energy for heating to be part of the urban infrastructure and its participation in the construction of infrastructure involving the tier one land development which requires to reduce carbon dioxide emission.

With respect to the Group's another environmental protection business operated by Shenzhen Lisai, the development is lower than expected due to the rising cost and depreciation of Euro, which has therefore affected the profits.

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 Review Period.

Regarding the ash treatment project, another project for which Shenzhen Lisai is applying for approval, the environmental assessment has generally completed and it is still pending approval from relevant governmental departments. This project will formally commence production upon approval. It is believed that this business can also bring a new source of revenue into the Group.

As China is in great demand of energy and shall deal with the limited sources of conventional energy as well as the impact to the environment, a clean, pollution-free and renewable energy is now what China and the whole world in great need. Shallow ground energy is exactly one of such ideal new energies. Accordingly, China's investments in renewable energy are expected to grow exponentially in size and in intensity, which drives the Group's shallow ground energy utilisation business into a high-speed development.

In addition, the Group will endeavour to improve operational efficiency and look for opportunities benefiting the development of the Company and will be more focused on the scientific research and promotion of the utilisation of ground energy as substitute energy for heating. The Group will also seek to strengthen the Company's management and enhance the Company's corporate governance standards in order to improve its corporate governance structure and system so that the Group has a strong and solid foundation for the future development of business, which will enable the Company to achieve a leading position in the market and create benefits for the shareholders.

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, 29 June 2010

Management Discussion and Analysis

FINANCIAL REVIEW

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

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

	(6 months) From 1 October 2009 to 31 March 2010		(12 months period) From 1 October 2008 to 30 September 2009 (Restated)	
	HK$'000	%	*HK$'000*	%
Continuing operations:				
Turnover:				
– Sales and installment of shallow ground energy utilisation system	**154,339**	**85**	286,741	63
– Maintenance services for shallow ground energy utilisation system	**6,154**	**4**	218	1
– Sewage and marsh gas treatment income	**18,505**	**10**	28,608	5
– Dividend income	**–**	**–**	1,256	1
Total revenue from continuing operations:	**178,998**	**99**	316,823	70
– Gross proceeds from trading of securities	**1,830**	**1**	48,851	11
	180,828	**100**	365,674	81
Discontinued operations:				
Turnover:				
– Sales of communication cables and optical cables	**–**	**–**	84,319	19
Total turnover from continuing and discontinued operations:	**180,828**	**100%**	449,993	100%
		HK$'000		*HK$'000*
Loss for the period/year		**48,770**		175,436

TURNOVER

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

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

Management Discussion and Analysis

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

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

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

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

GROSS PROFIT MARGIN

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

OTHER INCOME

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

Further information regarding the Company's other income may be referred to note 10, "Other Income" to the consolidated financial statements of this report.

SELLING & DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

	(6 months period) From 1 October 2009 to 31 March 2010		(12 months period) From 1 October 2008 to to 30 September 2009	
Selected information	***HK$'000***	***% of revenue***	*HK$'000*	*% of revenue*
Administrative expenses:				
Share based payment expenses	**907**	**0.5**	26,357	8.3
Minimum lease payments under operating leases in respect of land and buildings	**3,831**	**2.1**	8,137	2.6
Director Remuneration (excluding share based payment)	**3,480**	**1.9**	6,203	2.0

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

Management Discussion and Analysis

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

SEGMENTAL INFORMATION

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

Further information regarding the Company's operating segments may be referred to note 9, 'Segment Information' to the consolidated financial statements of this report.

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

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

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi.

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

As at 31 March 2010, the Company had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Company, based on total borrowings (including interest-bearing bank loans and convertible notes) to the equity (including all capital and reserves) of the Company, decreased to 19% for the period under review (2009: 31%).

EMPLOYEES

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

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

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

SHARE OPTION SCHEMES

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

The detailed disclosures relating to the Company's share option scheme are set out in note 48(b) to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

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

Management Discussion and Analysis

DIVIDEND

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

CAPITAL STRUCTURE

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

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

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

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

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

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 47 to the consolidated financial statements of this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSET

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

Management Discussion and Analysis

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

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

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

MAJOR ACQUISITION AND DISPOSALS

Details of major acquisition and disposal transaction are set out in note 43 and 44 to the consolidated financial statements of this report.

BUSINESS REVIEW AND OUTLOOK

SHALLOW GROUND ENERGY UTILISATION

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

Management Discussion and Analysis

Promotion and Operation Patterns by way of Investment

	EPC Model	**Heat-power Model**	**Virtual Power Plant Model (urban heating infrastructure)**
Investor	Project owner	EPC contractor	Third party investor
Contractor	EPC contractor (with an object to earn one-off profits arising from the project construction and sales of relevant machines and equipments)	EPC contractor (with an object to earn long-term operating revenue from a single project)	Third party investor (with an object to earn economy of scale and long-term operating revenue from several projects)
Operator	Property management company or other companies entrusted by the project owner	EPC contractor or institutes such as entrusted property management company by way of source energy management contracts	Professional operation company established by third party investor
Right of charge	Project owner	EPC contractor	Third party investor
Ownership	Project owner	EPC contractor	Third party investor
Risk bearer	Project owner	EPC contractor	Third party investor
Major advantages	Compliant with the conventional thinking, simple relationship among all the parties, and easy for operation	1. enhance the initiatives of the project owner	1. reduce investment and management costs for implementation of energy-saving projects
		2. balance the supply and consumption of heat and the relationship among investment, construction and operation	2. easy to obtain project financing from banks and other financial institutions
		3. provide best services for the customers	3. easy to obtain government support and assistance from CDM
		4. maximize the energy-saving effect with the least investment	4. help to promote the application of ground energy heat pump technology in large scale with obvious effects on environmental protection and social benefits
Major disadvantages	Unable to compromise the quality and price	Franchise contract is relatively complicated and more difficult to conclude and execute.	Third party investor operates only for profits, thus the period from negotiation to execution of agreement is longer.

EPC stands for engineer, procure, construct

Management Discussion and Analysis

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

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

ENVIRONMENTAL PROTECTION

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

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

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

The ash treatment project for the incineration of household garbage in Shenzhen City ("ash treatment project") adopts the "stabilization technology of macromolecular chelating agents" introduced by Tsing Hua University in "The Research Report on the Environmental Technology Sector under '863 Program'– Treatment and Disposal Technology of Dangerous Waste (November 2005)" for incineration and ash treatment. The reaction between the agents and the heavy metals in the ash will form stable macromolecular chelates, realizing the non-polluting of ashes. The construction is the first ash stabilizing treatment construction of the PRC designed and constructed for the target of the entry of household garbage landfill business. The project will resolve the disposal problem of massive amount of ash generated from incineration, setting an example in the PRC. Currently, the Company is applying for approval according to the relevant requirement of the PRC. After the official commencement of operation, the project will become a new business growth point for the Company.

SECURITIES INVESTMENTS

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

Biography of Directors

Ms. Chan Wai Kay Katherine (“**Ms. Chan**”), aged 51, the chairman of the Board and executive Director of the Company, holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and 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 47, 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 39, 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 37, 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 67, 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 54, 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

In January 2010, the Company has changed its financial year end date from 30 September to 31 March. Therefore, the directors present their report and the audited financial statements of the Company and the Group for the six months ended 31 March 2010 (the "Review Period").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 52 to the consolidated financial statements.

An analysis of the Group's performance for the six months ended 31 March 2010 by business segments are set out in note 9 to the consolidated financial statements.

RESULTS

The Group's profit for the six months ended 31 March 2010 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 31 to 116.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the six months ended 31 March 2010 and the last four financial years are set out below. This summary does not form part of the audited financial statements.

Results

	Six months ended 31 March	Year ended 30 September			
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
Turnover	**180,828**	365,674	235,037	117,647	71,013
(Loss)/profit before income tax	**(36,130)**	(173,078)	10,365	4,420	(13,232)
Income tax (expense)/credit	**(12,640)**	(714)	455	(1,153)	(1,056)
(Loss)/profit for the period/year from continuing operation	**(48,770)**	(173,792)	10,820	3,267	(14,288)
Loss for the period/year from discontinued operation	–	(1,644)	–	–	–
Loss for the period/year	**(48,770)**	(175,436)	10,820	3,267	(14,288)
Attributable to:					
Owners of the Company	**(46,404)**	(175,299)	9,170	2,594	(16,204)
Non-controlling interests	**(2,366)**	(137)	1,650	673	1,916
	(48,770)	(175,436)	10,820	3,267	(14,288)

Report of the Directors

Assets, liabilities and minority interests

	As at 31 March 2010 HK$'000	As at 30 September 2009 HK$'000 (Restated)	2008 HK$'000	2007 HK$'000	2006 HK$'000
Total assets	**1,184,642**	1,478,889	1,553,875	228,456	60,448
Total liabilities	**(382,915)**	(580,879)	(599,987)	(81,563)	(72,178)
Minority interests	**(45,237)**	(49,651)	(55,343)	(16,125)	(10,195)
Equity attributable to equity holders of the Company	**756,490**	848,359	898,545	130,768	(21,925)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Review Period are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

In the Company's annual general meeting held on 1 February 2010, the shareholders (the "Shareholders") of the Company resolved that every 4 ordinary shares of par value US$0.01 each in the issued and unissued share capital of the Company be consolidated into one ordinary share of par value US$0.04 each (the "Share Consolidation") which became effective on 2 February 2010. The Shareholders also resolved that the authorised share capital of the Company be increased from US$80,000,000 comprising 2,000,000,000 Shares of par value US$0.04 each to US$160,000,000 comprising 4,000,000,000 Shares of par value US$0.04 each. Details of movements in the Company's share capital and share options during the Review Period, together with the reasons therefore, are set out in notes 42 and 48 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 Review Period.

RESERVES

Details of movements in the reserves of the Company and the Group during the Review Period are set out in note 51(c) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

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 31 March 2010, the Company's reserve available for distribution amounted to HK$105,101 million after net off the accumulated losses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

For the Review Period, sales to the Group's five largest customers accounted for approximately 25% of the total sales and sales to the largest customer included therein amounted to approximately 8%. Purchases from the Group's five largest suppliers accounted for approximately 10% of the total purchases for the Review Period and purchases from the largest supplier included therein amounted to approximately 3%.

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 Review Period.

DIRECTORS

The directors of the Company during the Review Period were:

Executive directors:

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

Non-executive director:

Mr. Fu Hui Zhong

Independent non-executive directors:

Ms. Chan Man Kuen Laura
Mr. Jia Wenzeng
Mr. Chow Wan Hoi Paul

Note: In accordance with articles 86 and 87 of the Company's articles of association, one third of the Directors or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation. In the Company's annual general meeting held on 1 February 2010, Messrs. Fu Hui Zhong, Jia Wenzeng and Chow Wan Hoi Paul have been re-elected pursuant to articles 86 and 87 of the Company's articles of association. The next annual general meeting will be expected to be held in the year 2011 after the issuance of the annual report for the financial year ended 31 March 2011.

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.

Report of the Directors

BIOGRAPHY OF DIRECTORS

Biographical details of the directors of the Company are set out on page 14 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 15(a) and 50(c) 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 Review Period.

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

Due to the Share Consolidation which became effective on 2 February 2010, the shares of the Company in issue and the interests under equity derivatives including the shares issuable pursuant to the share options and convertible notes as well as its respective exercise price and conversion price have been adjusted (the "Adjustment") accordingly.

As at 31 March 2010, 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 after Adjustment

	Number of issued ordinary shares of US$0.04 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	–	–	13,750,000		–
	Interest of spouse	10,074,000	0.59%	–	23,824,000	1.40%
Mr. Wu Shu Min *(Note 2)*	Beneficial owner	36,505,750	2.15%	17,000,000	53,505,750	3.15%
Mr. Xu Shengheng *(Note 3)*	Beneficial owner	279,890,000	16.50%	13,750,000		
	Interest of spouse	702,000	0.04%	–		
	Interest of controlled corporation	–	–	170,000,000	464,342,000	27.37%
Ms. Chan Man Kuen Laura	Beneficial owner	1,250,000	0.07%	–	1,250,000	0.07%

Report of the Directors

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 13,750,000 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 10,074,000 shares of the Company ("Shares"). Under SFO, Ms. Chan is also deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.

2. Mr. Wu Shu Min is interested in 36,505,750 Shares and 17,000,000 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 279,890,000 Shares and 13,750,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of the section. 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 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in 279,890,000 Shares, 702,000 Shares in which Ms. Luk is interested, 170,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere and 13,750,000 Shares issuable pursuant to exercise of share options of the Company.

(b) Long position under equity derivatives after Adjustment

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 31 March 2010, 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 31 March 2010
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.86	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.312	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

Report of the Directors

Save as disclosed above, as at 31 March 2010, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 48(b) to the consolidated financial statements in respect of the share option schemes, at no time during the Review Period 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 48(b) 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 31 March 2010, 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 (after Adjustment)

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	125,000,000	7.37%	–	125,000,000	7.37%
Financial International Holdings Ltd. *(Note 2)*	Beneficial owner	131,429,000	7.75%	–	131,429,000	7.75%
Cheung Kwan *(Note 2)*	Beneficial owner	39,350,000	2.32%	–		
	Interest of controlled corporation	131,429,000	7.75%	–	170,779,000	10.07%
Ever Sincere Investment Limited *(Note 3)*	Beneficial owner	–	–	170,000,000	170,000,000	10.02%
Luk Hoi Man *(Note 4)*	Beneficial owner	702,000	0.04%	–		
	Interest of spouse	279,890,000	16.5%	183,750,000	464,342,000	27.37%

Report of the Directors

Notes:

1. These are the consideration shares 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 170,779,000 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 279,890,000 Shares and 183,750,000 underlying shares of the Company including 13,750,000 Share options that Mr. Xu is interested in otherwise than by virtue of interest of spouse.

Save as disclosed above, as at 31 March 2010, 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 final results for the six months ended 31 March 2010 and has provided advice and comments thereon. The Audit Committee held four meetings during the Review Period.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 23 to 27.

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 Review Period, 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 six months ended 31 March 2010 have been audited by SHINEWING (HK) CPA Limited 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 2009 and 30 September 2008, Messrs. HLB Hodgson Impey Cheng acted as auditors of the Company and resigned as auditors of the Company on 1 February 2010.

For and on behalf of the Board

Chan Wai Kay Katherine
Chairman

Hong Kong, 29 June 2010

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 six months ended 31 March 2010 (the "Review Period"). 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 Review Period.

BOARD OF DIRECTORS

As at 31 March 2010, 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 six months ended 31 March 2010, a total of nine regular and adhoc Board meetings were held.

Corporate Governance Report

Board minutes are kept by the secretary of the Company (the "Secretary") and are open for inspection by the Directors of the Company. Each Director of the Company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if required.

During the six months ended 31 March 2010, nine 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	9/9	1/4	N/A
Mr. Xu Shengheng	9/9	N/A	N/A
Mr. Wu Shu Min	9/9	N/A	N/A
Mr. Soo Kim Fui Jeffrey	8/9	4/4	N/A
Non-executive Directors			
Mr. Fu Hui Zhong	9/9	N/A	N/A
Independent non-executive Directors			
Ms. Chan Man Kuen Laura	9/9	4/4	0/0
Mr. Jia Wenzeng	8/9	4/4	0/0
Mr. Chow Wan Hoi Paul	9/9	4/4	0/0

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 the six months ended 31 March 2010, the roles of chairman and chief executive officer have been separately performed by Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng respectively.

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.

Corporate Governance Report

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 (chairman of remuneration committee), Mr. Jia Wenzeng and Mr. Chow Wan Hoi Paul.

During the Review period, no meeting was held by the remuneration committee.

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 and make recommendation to the Board for approval. During the Review Period, no directors was appointed.

AUDITORS' REMUNERATION

The audit works of the Group for the six months ended 31 March 2010 were performed by SHINEWING (HK) CPA Limited. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the Review Period are set out below:

	Fee paid/payable	
Services rendered	**For the six months ended 31 March 2010**	For the year ended 30 September 2009
	HK$'000	*HK$'000*
Audit services		
– SHINEWING (HK) CPA Limited	**1,150**	–
– HLB	–	2,100
Non-audit services	**350**	377
Total fee paid/payable for the period/year	**1,500**	2,477

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.

As at 31 March 2010, the audit committee comprises Mr. Jia Wenzeng (chairman of the audit committee), Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul.

Corporate Governance Report

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. During the Review Period, four meetings were held.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors acknowledged their responsibility 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.

QUALIFIED OPINION TO FINANCIAL STATEMENTS

The Board would like to draw the attention of the shareholders and the potential investors of the Company to the "Basis for qualified opinion" in the Independent Auditors' Report.

Basis for qualified opinion

(a) *Limitation of scope affecting opening balances*

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

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

(b) *Goodwill*

As mentioned in the Company's 2009 Auditor's Report, the relationship between 湖南衡興環保科技開發有限公司 ("Hengxing") and the Group could not be ascertained due to insufficient information. According to the result of a special investigation conducted by an independent professional firm as initiated by the board of the directors of the Company for the purpose of, among other things, ascertaining the relationship between the Group and Hengxing, Hengxing was found being a limited company established in the People's Republic of China on 23 February 2006 and held by a wholly owned subsidiary of the Company, Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as to 70% of its equity interest; therefore a subsidiary of Shenzhen Lisai as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group") on 7 November 2007. Subsequently, Shenzhen Lisai disposed of all the equity interests in Hengxing it held on 27 August 2009.

Corporate Governance Report

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

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

(c) Presentation of consolidated financial statements

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

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 or 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 six months ended 31 March 2010, 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 Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

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

We have audited 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 31 to 116, which comprise the consolidated statement of financial position as at 31 March 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 31 March 2010, 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.

AUDITOR'S 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 as described in the basis for qualified opinion paragraphs, 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

BASIS FOR QUALIFIED OPINION

(a) Limitation of scope affecting opening balances

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

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

(b) Goodwill

As mentioned in the Company's 2009 Auditor's Report, the relationship between 湖南衡興環保科技開發有限公司 ("Hengxing") and the Group could not be ascertained due to insufficient information. According to the result of a special investigation conducted by an independent professional firm as initiated by the board of the directors of the Company for the purpose of, among other things, ascertaining the relationship between the Group and Hengxing, Hengxing was found being a limited company established in the People's Republic of China on 23 February 2006 and held by a wholly owned subsidiary of the Company, Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as to 70% of its equity interest; therefore a subsidiary of Shenzhen Lisai as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui") and Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group") on 7 November 2007. Subsequently, Shenzhen Lisai disposed of all the equity interests in Hengxing it held on 27 August 2009.

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

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

(c) Presentation of consolidated financial statements

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

Independent Auditor's Report

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group's loss and cash flows for the six months ended 31 March 2010 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
29 June 2010

Consolidated Income Statement

For the six months ended 31 March 2010

	Notes	Six months ended 31 March 2010 HK$'000	Year ended 30 September 2009 HK$'000 (Restated)
Continuing operations			
Turnover	8	**180,828**	365,674
Revenue	9	**178,998**	316,823
Cost of sales		**(133,949)**	(217,692)
Gross profit		**45,049**	99,131
Other income	10	**19,126**	24,940
Selling and distribution costs		**(5,741)**	(11,869)
Administrative expenses		**(43,472)**	(105,481)
Other operating expenses		**(1,149)**	(2,647)
Allowance for doubtful debts		**(11,567)**	(9,818)
Gain on disposal of financial assets at fair value through profit or loss		**266**	9,945
Gain on disposal of available-for-sale investments		**13,234**	–
Reversal of allowance for doubtful debts		**18,907**	4,204
Profit from operations		**34,653**	8,405
Share of profits (losses) of associates	23	**214**	(145)
Share of profit of a jointly controlled entity	24	–	19
Gain on cancellation of convertible notes		**13,953**	–
Gain on disposal of subsidiaries		**12,626**	6,083
Impairment loss on goodwill	21	**(56,658)**	(161,429)
Impairment loss on property, plant and equipment	18	**(23,178)**	–
Finance costs	11	**(17,740)**	(26,011)
Loss before tax		**(36,130)**	(173,078)
Income tax expense	12	**(12,640)**	(714)
Loss for the period/year from continuing operations		**(48,770)**	(173,792)
Discontinued operation			
Loss for the period/year from discontinued operation	13	–	(1,644)
Loss for the period/year	14	**(48,770)**	(175,436)
Loss for the period/year attributable to:			
Owners of the Company		**(46,404)**	(175,299)
Non-controlling interests		**(2,366)**	(137)
		(48,770)	(175,436)
Loss per share	17		
From continuing and discontinued operations			
Basic and diluted (HK cents)		**(2.75)**	(11.61)
From continuing operations			
Basic and diluted (HK cents)		**(2.75)**	(11.50)

Consolidated Statement of Comprehensive Income

For the six months ended 31 March 2010

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

Consolidated Statement of Financial Position

As at 31 March 2010

	Notes	31 March 2010 HK$'000	30 September 2009 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	18	29,808	90,524
Deposit paid for acquisition of land use rights	20	56,787	34,002
Goodwill	21	505,062	561,720
Intangible assets	22	3,280	3,868
Interests in associates	23	34,998	34,694
Available-for-sale investments	25	488	24,858
Other receivable	26	12,875	–
Deferred tax assets	27	22,802	25,190
		666,100	774,856
Current assets			
Inventories	28	71,092	72,802
Trade and retention receivables	29	68,519	49,289
Prepayments, deposits and other receivables	30	78,264	272,511
Amounts due from customers for contract work	31	160,424	171,601
Amounts due from non-controlling shareholders	32	4,570	4,574
Held-for-trading financial assets	33	56	1,625
Cash held at non-bank financial institutions	34	692	18,603
Bank balances and cash	34	134,925	113,028
		518,542	704,033
Current liabilities			
Trade payables	35	84,113	94,895
Accrued liabilities, deposits received and other payables	36	69,812	83,158
Amounts due to customers for contract work	31	17,321	32,722
Amounts due to non-controlling shareholders	37	9,806	12,221
Amount due to an associate	38	36,257	62,902
Amount due to an investee company	37	1,317	–
Other loans	39	–	1,133
Tax payable		13,912	5,859
		232,538	292,890
Net current assets		286,004	411,143
Total assets less current liabilities		952,104	1,185,999

Consolidated Statement of Financial Position

As at 31 March 2010

	Notes	31 March 2010 HK$'000	30 September 2009 HK$'000 (Restated)
Non-current liabilities			
Convertible notes	40	**145,919**	257,143
Other loans	39	**–**	5,667
Deferred income	41	**4,458**	25,179
		150,377	287,989
Net assets		**801,727**	898,010
Capital and reserves			
Share capital	42	**529,387**	526,735
Reserves		**227,103**	321,624
Equity attributable to owners of the Company		**756,490**	848,359
Non-controlling interests		**45,237**	49,651
Total equity		**801,727**	898,010

The consolidated financial statements on pages 31 to 116 were approved and authorised for issue by the board of directors on 29 June 2010 and are signed on its behalf by:

Chan Wai Kay Katherine
Executive Director

Xu Shengheng
Executive Director

Consolidated Statement of Changes in Equity

For the six months ended 31 March 2010

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

Consolidated Statement of Changes in Equity

For the six months ended 31 March 2010

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

Notes:

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

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

Consolidated Statement of Cash Flows

For the six months ended 31 March 2010

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
		(Restated)
OPERATING ACTIVITIES		
Loss before tax from continuing operations	**(36,130)**	(173,078)
Loss before tax from discontinued operation	**–**	(1,644)
	(36,130)	(174,722)
Adjustments for:		
Allowance for doubtful debts	**11,567**	11,988
Amortisation of deferred income on government grants	**(1,495)**	(784)
Amortisation of intangible assets	**596**	1,193
Amortisation of prepaid lease payments	**–**	81
Change in fair value of held-for-trading financial assets	**11**	(500)
Depreciation of property, plant and equipment	**13,762**	8,265
Finance costs	**17,740**	29,424
Gain on cancellation of convertible notes	**(13,953)**	–
Gain on disposal of available-for-sale investments	**(13,234)**	–
Gain on disposal of financial assets at fair value through profit or loss	**(266)**	(9,945)
Gain on disposal of subsidiaries	**(12,626)**	(8,205)
Interest income	**(203)**	(862)
Impairment loss on goodwill	**56,658**	161,429
Impairment loss on property, plant and equipment	**23,178**	–
Loss on disposal of property, plant and equipment	**1,320**	863
Loss on winding up of a jointly controlled entity	**–**	9,793
Reversal of allowance for doubtful debts	**(18,907)**	(4,204)
Share-based payment expenses	**907**	26,357
Share of (profits) losses of associates	**(214)**	145
Share of profit of a jointly controlled entity	**–**	(19)
Written off on inventories	**–**	64
Written off of property, plant and equipment	**–**	1,518

Consolidated Statement of Cash Flows

For the six months ended 31 March 2010

	Notes	Six months ended 31 March 2010 HK$'000	Year ended 30 September 2009 HK$'000 (Restated)
Operating cash flows before movements in working capital		**28,711**	51,879
Proceeds from disposal of available-for-sale investments		**22,715**	–
Acquisition of available-for-sale investments		–	(24,369)
Decrease in inventories		**1,806**	20,609
Increase in trade and retention receivables		**(9,760)**	(14,084)
Increase in prepayments, deposits and other receivables		**(6,136)**	(31,936)
Decrease (increase) in amounts due from customers for contract work		**11,177**	(83,005)
Acquisition of held-for-trading financial assets		–	(25,529)
Proceeds from disposal of held-for-trading financial assets		**1,819**	48,851
Decrease (increase) in cash held at non-bank financial institutions		**17,911**	(15,623)
Increase in trade payables		**6,451**	78,067
Increase (decrease) in accrued liabilities, deposits received and other payables		**14,326**	(6,094)
(Decrease) increase in amounts due to customers for contract work		**(15,401)**	14,418
Cash generated from operations		**73,619**	13,184
Income tax paid in the PRC		**(2,173)**	(2,004)
NET CASH FROM OPERATING ACTIVITIES		**71,446**	11,180
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(51,233)**	(56,758)
Net cash (outflow) inflow from disposal of subsidiaries	*44*	**(1,736)**	7,451
Repayment from non-controlling shareholders		**4**	609
Proceeds from disposal of property, plant and equipment		**39**	8,553
Interest received		**203**	862
Deposit paid for acquisition of land use rights		–	(34,002)
Investments in associates		–	(886)
Net cash inflow from acquisition of subsidiaries	*43*	–	1,214
NET CASH USED IN INVESTING ACTIVITIES		**(52,723)**	(72,957)

Consolidated Statement of Cash Flows

For the six months ended 31 March 2010

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
FINANCING ACTIVITIES		
New other loans raised	**18,629**	6,800
Government grants received	**12,807**	16,004
Proceeds from exercise of share options	**2,808**	–
Advance from an investee company	**1,317**	–
Repayment to non-controlling shareholders	**(2,260)**	(8,939)
Interest paid	**(3,611)**	(4,004)
Repayment to an associate	**(26,645)**	(26,864)
Advance to non-controlling shareholders	–	(2,015)
Repayment of other loans	–	(4,660)
Repayment of bank loans	–	(1,941)
Share issuing expenses	–	(507)
Proceeds from placing of new shares	–	85,800
NET CASH FROM FINANCING ACTIVITIES	**3,045**	59,674
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**21,768**	(2,103)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	**113,028**	117,061
Effect of foreign exchange rate changes	**129**	(1,930)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash	**134,925**	113,028

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries, associates and jointly controlled entity are set out in Notes 52, 23 and 24 respectively.

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

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

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

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

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

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

New and revised HKFRSs affecting presentation and disclosure only *(Continued)*

HKAS 27 (Revised) Consolidated and Separate Financial Statements

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

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

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

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. PRIOR PERIOD ADJUSTMENTS

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

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

3. PRIOR PERIOD ADJUSTMENTS *(Continued)*

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

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

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

The effects of the prior period adjustments are summarised below:

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

3. PRIOR PERIOD ADJUSTMENTS *(Continued)*

Consolidated Statement of Financial Position

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Prior to 1 April 2009, losses applicable to the non-controlling interests in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. Starting from 1 April 2009, total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Total comprehensive losses attributed to non-controlling interests prior to 1 April 2009 were not restated.

Business combinations

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. 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.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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 jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recongised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Deposits received from purchasers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from projects involving installment of shallow ground energy utilisation system are recognised when the outcome of the contract can be estimated reliably and is recognised by reference to the stage of completion. The details of the revenue recognition are set out in the sub-section of "Construction contracts" as below.

Service income is recognised when services are provided.

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress) are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation increase arising on revaluation of buildings is recognised in other comprehensive income and accumulated in asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated losses.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests. The prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the consolidated income statement over the lease term using the straight-line method.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and retention receivables.

Leasing

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.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

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 exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised only if it was anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity 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 or 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 profit or loss.

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 ("FVTPL"), 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 marketplace.

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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- 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-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and retention receivables, deposits and other receivables, amounts due from non-controlling shareholders, cash held at non-bank financial institutions and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of 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.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the reserve is reclassified to profit or loss (see accounting policy on impairment of 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 the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. 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 affected.

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:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and retention 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 credit period, observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and retention 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 profit or loss. When a trade or retention receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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 losses 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 profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

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

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 financial liabilities

Other financial liabilities including trade payables, accrued liabilities and other payables, amounts due to non-controlling shareholders, amount due to an associate, amount due to an investee company and other loans, are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest 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 conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing 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 reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Equity instruments

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

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 had been recognised in other comprehensive income is recognised in profit or loss.

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share-based payment reserve.

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

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognised are based on management's assessment of the likely outcome.

No deferred tax asset has been recognised in respect of tax losses of HK$14,740,000 as at 30 September 2009 (31 March 2010: Nil) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the consolidated income statement for the period in which it takes place.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Construction contracts

The Group recognises contract revenue and profit on a construction contract according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimations and this will affect the revenue and profit recognised.

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 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 the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the period and the estimate will be changed in the future period.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment is impaired, at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 March 2010, the carrying amount of property, plant and equipment is HK$29,808,000 (net of accumulated impairment loss of HK$23,178,000). No impairment was provided during the year ended 30 September 2009.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units 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. As at 31 March 2010, the carrying amount of goodwill is HK$505,062,000 (30 September 2009: HK$561,720,000) (net of accumulated impairment loss of HK$255,824,000) (30 September 2009: net of accumulated impairment loss of HK$199,166,000)

Estimated allowance for inventories and write-down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 March 2010, the carrying amounts of inventories was approximately HK$71,092,000 (30 September 2009: HK$72,802,000). No impairment loss was recognised during both periods.

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised.

The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate have been changed. During the year ended 30 September 2009, inventories of approximately HK$64,000 had been written off (six months ended 31 March 2010: Nil).

Estimated impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 March 2010, the carrying amount of trade receivables is HK$68,519,000 (net of allowance for doubtful debts of HK$13,504,000 (30 September 2009: carrying amount of HK$49,289,000, net of allowance for doubtful debts of HK$22,942,000).

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings, which includes the other loans and convertible notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issuance of new shares, raising of new debts or repayment of existing debts.

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

The gearing ratio at the end of the reporting period is as follows:

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
		(Restated)
Total borrowings *(note i)*	**145,919**	263,943
Equity *(note ii)*	**756,490**	848,359
Gearing ratio	**19%**	31%

i) Total borrowings comprises the interest-bearing other loans and convertible notes as detailed in Notes 39 and 40 respectively.

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS

7(a) Categories of financial instruments

	31 March 2010 HK$'000	30 September 2009 HK$'000
Financial assets		
FVTPL – held for trading	**56**	1,625
Loans and receivables (including cash and cash equivalents)	**293,952**	445,252
Available-for-sale investments	**488**	24,858
Financial liabilities		
Amortised cost	**302,232**	476,382

7(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading financial assets, trade and retention receivables, deposits and other receivables, amounts due from non-controlling shareholders, cash held at non-bank financial instructions, bank balances and cash, trade payables, accrued liabilities and other payables, amounts due to non-controlling shareholders, amount due to an associate, amount due to an investee company, other loans and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

Market risk

(i) Currency risk

The majority of the subsidiaries in the Group are operating in the PRC. The Company and several subsidiaries of the Company have transactions denominated in HK$, which exposed to foreign exchange risk arising from the exposure of RMB against HK$.

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

	Assets		**Liabilities**	
	31 March 2010 ***HK$'000***	30 September 2009 *HK$'000*	**31 March 2010** ***HK$'000***	30 September 2009 *HK$'000*
HK$	**55,238**	42,117	**147,084**	257,958

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS *(Continued)*

7(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (year ended 30 September 2009: 5%) increase and decrease in HK$ against the relevant foreign currencies. 5% (year ended 30 September 2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (year ended 30 September 2009: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss for the period/year where RMB strengthen 5% (year ended 30 September 2009: 5%) against the relevant currency. For a 5% (year ended 30 September 2009: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
HK$	**4,592**	10,792

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate amount due to an associate as detailed in Note 38 for the year ended 30 September 2009. The Group historically has not used any financial instrument to hedge potential fluctuations in interest rates as the term of this amount due to an associate is within one year, the exposure of interest rate for fair value is limited.

The Group is exposed to cash flow interest rate risk in relation to variable-rate other loans as detailed in Note 39 for the year ended 30 September 2009. It was the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. There were no interest-bearing financial liabilities as at 31 March 2010.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of base lending rate published by the People's Bank of China arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS *(Continued)*

7(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis *(Continued)*

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 30 September 2009 would increase/decrease by HK$34,000. This is mainly attributable to the Group's exposure to interest rates on its variable-rate other loans.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in manufacturing, infrastructure construction and properties investment industry sector quoted in the Stock Exchange. In addition, the Group will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% (year ended 30 September 2009: 5%) higher/lower, profit for the six months ended 31 March 2010 would increase/decrease by HK$3,000 (year ended 30 September 2009: loss would decrease/increase by HK$81,000) as a result of the changes in fair value of held-for-trading investments and available-for-sale investments; and investment valuation reserve for the year ended 30 September 2009 would increase/decrease by HK$1,219,000 (six months ended 31 March 2010: Nil) for the Group as a result of the changes in fair value of other available-for-sale investments.

The Group's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

Credit risk

As at 31 March 2010, 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 provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

With respect to credit risk arising from amounts due from non-controlling shareholders, the Group's exposure to credit risk arising from default of the counterparties are limited as the counterparties have sufficient net assets to repay its debts and a good history of repayment. The Group does not expect to incur a significant loss for uncollected amounts due from these non-controlling shareholders.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS *(Continued)*

7(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk, with exposure spreading over a number of counterparties.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (30 September 2009: 100%) of the total trade receivables as at 31 March 2010.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when fall due in the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Within 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2010					
Non-derivative financial liabilities					
Trade payables	84,113	–	–	84,113	84,113
Accrued liabilities and other payables	24,820	–	–	24,820	24,820
Amounts due to non-controlling shareholders	9,806	–	–	9,806	9,806
Amount due to an associate	36,257	–	–	36,257	36,257
Amount due to an investee company	1,317	–	–	1,317	1,317
Convertible notes	–	–	204,000	204,000	145,919
	156,313	–	204,000	360,313	302,232

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS *(Continued)*

7(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

	Within 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 September 2009					
Non-derivative financial liabilities					
Trade payables	94,895	–	–	94,895	94,895
Accrued liabilities and other payables	42,421	–	–	42,421	42,421
Amounts due to non-controlling shareholders	12,221	–	–	12,221	12,221
Amount due to an associate	63,582	–	–	63,582	62,902
Other loans	1,224	6,160	–	7,384	6,800
Convertible notes	–	–	285,401	285,401	257,143
	214,343	6,160	285,401	505,904	476,382

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

7(c) Fair value

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

- The fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input; and

The non-current portion of other receivable in respect of the deferred consideration is recorded at its fair value. Except for this, 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 to their fair values due to their short-term maturities.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

7. FINANCIAL INSTRUMENTS *(Continued)*

7(c) Fair value *(Continued)*

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 March 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Held-for-trading financial assets	56	–	–	56

8. TURNOVER

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

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

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For the six months ended 31 March 2010

9. SEGMENT INFORMATION

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

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

The Group comprises the following reportable segments:

(a) Transmission segment – manufacturing and sale of communication cables and optical cables;

(b) Shallow ground energy segment – provision, installation and maintenance of shallow ground energy utilisation system;

(c) Environmental protection segment – synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waste water and utilisation of new energy sources;

(d) Securities investments and trading segment – trading of investment securities; and

(e) Other segment – provision and sales of telecommunications network infrastructure solutions and network management solutions.

On 8 September 2009, the Group completed the disposal of Future Frontier Limited and its subsidiary which were engaged in the manufacturing and sale of communication cables and optical cables as set out in Note 44. Hence, this operating division is presented as discontinued operation during the year ended 30 September 2009. Details of the discontinued operation are set out in Note 13.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

9. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the six months ended 31 March 2010

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

For the year ended 30 September 2009

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

9. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Segment profit or loss represents profit earned by or loss from each segment without allocation of share of results of associates, share of results of a jointly controlled entity, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

9. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Segment liabilities *(Continued)*

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

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

Other segment information

For the six months ended 31 March 2010

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

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For the six months ended 31 March 2010

9. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the six months ended 31 March 2010 *(Continued)*

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

For the year ended 30 September 2009 (Restated)

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

9. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 30 September 2009 (Restated) *(Continued)*

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

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

Geographical information

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

Information about major customers

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

10. OTHER INCOME

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Continuing operations		
Bank interest income	**203**	788
Government grants *(Note a)*	**4,163**	3,846
Amortisation of deferred income on government grants *(Note 41)*	**1,495**	784
Consultancy fee income	**–**	432
Change in fair value of held-for-trading financial assets	**–**	500
Sale of raw materials	**5,824**	744
Recovery of bad debts written off	**–**	227
Compensation received *(Note b)*	**5,446**	17,043
Business tax refund	**–**	396
Others	**1,995**	180
	19,126	24,940

Notes:

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

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

11. FINANCE COSTS

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	**798**	591
Imputed interest expense on convertible notes *(Note 40)*	**14,129**	25,420
Interest paid to an associate	**2,813**	–
	17,740	26,011

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For the six months ended 31 March 2010

12. INCOME TAX

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**9,340**	2,118
Under provision in prior year:		
Hong Kong Profits Tax	**899**	–
Deferred tax *(Note 27)*	**2,401**	(1,404)
	12,640	714

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

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

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

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

Since March 2008, Inland Revenue Department ("IRD") has initiated tax enquiries and issued protective profits tax demand note relating to the years of assessment 2000/2001 to 2005/2006 against a subsidiary in the Group. The Group had lodged objections with the IRD and the IRD agreed to hold over the tax claimed completely subject to the said subsidiary in question purchasing tax reserve certificates ("TRCs"). TRCs of an aggregate amount of approximately HK$2,447,000 were purchased by the Group up to the end of the reporting period and included in other receivables in the consolidated statement of financial position as at 31 March 2010. The Group has purchased TRCs of approximately HK$899,000 in May 2010.

The Group has provided tax liabilities in respect of the mentioned years of assessment. The directors of the Company considered that there was no material under-provision of tax liabilities as at 31 March 2010.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

12. INCOME TAX *(Continued)*

The tax expense for the period/year can be reconciled to the loss per the consolidated income statement as follows:

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
		(Restated)
Loss before tax (from continuing operations)	**(36,130)**	(173,078)
Tax at the domestic income tax rate	**(3,301)**	(23,733)
Under-provision in prior years	**899**	–
Tax effect of share of profits/losses of associates and a jointly controlled entity	**(54)**	31
Tax effect of expenses not deductible for tax purpose	**16,840**	14,465
Tax effect of income not taxable for tax purpose	**(3,038)**	(3,256)
Tax effect of tax losses not recognised	**–**	15,058
Tax effect of deductible temporary differences not recognised	**5,794**	–
Utilisation of tax losses previously not recognised	**(3,685)**	(739)
Income tax on concessionary rate	**(815)**	(1,112)
Tax expense for the period/year (relating to continuing operations)	**12,640**	714

Note: As the Group operates in several different tax jurisdictions separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

13. DISCONTINUED OPERATION

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

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

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
Loss of manufacturing and sale of communication cables and optical cables operation for the period/year	**–**	(3,766)
Gain on disposal of manufacturing and sale of communication cables and optical cables operation *(Note 44(d))*	**–**	2,122
	–	(1,644)

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

13. DISCONTINUED OPERATION *(Continued)*

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

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

Loss for the year from discontinued operation including the following:

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

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

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

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

The carrying amounts of the assets and liabilities of FFL Group as the date of disposal are disclosed in Note 44(d).

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14. LOSS FOR THE PERIOD/YEAR

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000* (Restated)
Loss for the period/year has been arrived at after charging:		
Continuing operations		
Staff costs, including directors' remuneration *(Note 15)*		
– Wages and salaries	**15,454**	28,937
– Retirement benefits scheme contributions	**987**	1,506
– Share-based payment expenses	**907**	26,357
	17,348	56,800
Cost of inventories sold	**131,424**	217,582
Exchange losses	**1,041**	–
Change in fair value of held-for-trading financial assets	**11**	–
Depreciation of property, plant and equipment	**13,762**	6,923
Amortisation of intangible assets	**596**	1,193
Auditor's remuneration	**1,150**	2,100
Lease payments under operating leases in respect of land and buildings	**3,831**	8,137
Written off on inventories (included in cost of sales)	**–**	64
Written off of property, plant and equipment	**–**	1,518
Loss on disposal of property, plant and equipment	**1,320**	863
Loss on winding up of a jointly controlled entity	**–**	9,793
Research costs (included in administrative expenses)*	**2,708**	910

* *Research costs included staff costs and depreciation of property, plant and equipment used in research activities.*

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For the six months ended 31 March 2010

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

Details of emoluments paid and payable to the directors of the Company for the period/year are as follows:

	For the six months ended 31 March 2010				
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	954	6	–	960
Mr. Xu Shengheng	–	954	6	–	960
Mr. Wu Shu Min	–	960	–	–	960
Mr. Soo Kim Fui, Jeffrey	–	300	–	–	300
Non-executive directors:					
Mr. Fu Hui Zhong	120	–	–	–	120
Independent non-executive directors:					
Ms. Chan Man Kuen, Laura	60	–	–	–	60
Mr. Chow Wan Hoi, Paul	60	–	–	–	60
Mr. Jia Wenzeng	60	–	–	–	60
Total	300	3,168	12	–	3,480

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors *(Continued)*

		For the year ended 30 September 2009				
	Notes	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Share-based payment expenses *HK$'000*	Total *HK$'000*
Executive directors:						
Ms. Chan Wai Kay, Katherine	*(a)*	–	1,251	12	2,568	3,831
Mr. Xu Shengheng	*(b)*	–	1,920	12	2,568	4,500
Mr. Wu Shu Min	*(c)*	–	1,920	–	2,568	4,488
Mr. Soo Kim Fui, Jeffrey	*(d)*	–	391	–	1,634	2,025
Mr. Xu Zhi Feng	*(e)*	–	167	–	–	167
Non-executive directors:						
Mr. Lu Chuan	*(f)*	116	–	–	–	116
Mr. Fu Hui Zhong	*(g)*	124	–	–	700	824
Independent non-executive directors:						
Ms. Chan Man Kuen, Laura	*(h)*	78	–	–	233	311
Mr. Chow Wan Hoi, Paul	*(i)*	50	–	–	233	283
Mr. Jia Wenzeng	*(j)*	62	–	–	233	295
Mr. Chiu Chun Kit, Calvin	*(k)*	28	–	–	–	28
Mr. Zhang Lai	*(l)*	32	–	–	–	32
Ms. Cai Xin	*(m)*	40	–	–	–	40
Total		530	5,649	24	10,737	16,940

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors *(Continued)*

No director waived any emoluments for the period/year.

During the period/year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Employees

Of the five individuals with the highest emoluments in the Group, four (year ended 30 September 2009: four) were directors of the Company whose emoluments are included in the disclosures in Note 15(a) above. The emoluments of the remaining one (year ended 30 September 2009: one) individual were as follows:

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Salaries and other benefits	**264**	273
Contributions to retirement benefits schemes	**6**	2
Share-based payment expenses	**–**	1,634
	270	1,909

The emolument of each of the above employees was less than HK$1,000,000 during the six months ended 31 March 2010 (year ended 30 September 2009: within the band of HK$1,500,001 to HK$2,000,000).

During the period/year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

16. DIVIDENDS

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

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17. LOSS PER SHARE

For continuing and discontinued operation

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

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

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

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the consolidation of shares on 1 February 2010 as detailed in Note 42(b).

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

17. LOSS PER SHARE *(Continued)*

From continuing operations

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

Loss figures are calculated as follows:

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

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

From discontinued operation

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

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For the six months ended 31 March 2010

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION								
At 1 October 2008	9,550	2,205	36,253	7,921	10,146	10,962	15,651	92,688
Exchange adjustments	(30)	(1)	(117)	(1)	(39)	(33)	(64)	(285)
Additions	60	131	5,885	140	390	3,061	47,091	56,758
Acquired on acquisition of a subsidiary	–	–	–	–	28	–	–	28
Written off	–	–	(154)	–	(221)	–	(1,364)	(1,739)
Disposals	–	–	(3,913)	–	–	–	(5,956)	(9,869)
Disposal of subsidiaries	(9,921)	–	(15,953)	(4,221)	(597)	(449)	–	(31,141)
Transfer	341	2,997	6,988	–	(3,541)	–	(6,785)	–
At 30 September 2009	–	**5,332**	**28,989**	**3,839**	**6,166**	**13,541**	**48,573**	**106,440**
Exchange adjustments	–	**7**	**138**	**5**	**23**	**30**	**54**	**257**
Additions	–	**4**	**12,931**	**394**	**5,498**	**2,828**	**29,578**	**51,233**
Disposals	–	–	**(1,359)**	**(1,366)**	–	**(1,089)**	–	**(3,814)**
Disposal of subsidiaries	–	–	**(79,730)**	**(170)**	**(57)**	**(721)**	–	**(80,678)**
Transfer	–	–	**61,921**	–	**102**	–	**(62,023)**	–
At 31 March 2010	–	**5,343**	**22,890**	**2,702**	**11,732**	**14,589**	**16,182**	**73,438**
DEPRECIATION AND IMPAIRMENT								
At 1 October 2008	–	614	9,004	6,789	2,577	2,871	–	21,855
Exchange adjustments	–	–	(55)	–	(21)	(20)	–	(96)
Charge for the year	190	703	4,109	186	1,119	1,958	–	8,265
Written off	–	–	(65)	–	(156)	–	–	(221)
Eliminated on disposals	–	–	(453)	–	–	–	–	(453)
Disposal of subsidiaries	(190)	–	(8,772)	(3,451)	(572)	(449)	–	(13,434)
At 30 September 2009	–	**1,317**	**3,768**	**3,524**	**2,947**	**4,360**	–	**15,916**
Exchange adjustments	–	**1**	**15**	**4**	**10**	**14**	–	**44**
Charge for the period	–	**276**	**7,555**	**164**	**2,255**	**3,512**	–	**13,762**
Impairment loss recognised in the period	–	**3,274**	**7,838**	–	**5,139**	**1,778**	**5,149**	**23,178**
Eliminated on disposals	–	–	–	**(1,366)**	–	**(1,089)**	–	**(2,455)**
Disposal of subsidiaries	–	–	**(6,349)**	**(112)**	**(43)**	**(311)**	–	**(6,815)**
At 31 March 2010	–	**4,868**	**12,827**	**2,214**	**10,308**	**8,264**	**5,149**	**43,630**
CARRYING VALUES								
At 31 March 2010	–	**475**	**10,063**	**488**	**1,424**	**6,325**	**11,033**	**29,808**
At 30 September 2009	–	4,015	25,221	315	3,219	9,181	48,573	90,524

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For the six months ended 31 March 2010

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

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values, over their estimated useful lives as follows:

Leasehold buildings	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 the leasehold buildings of the Group were situated in the PRC and held under medium-term leases.

Leasehold building as at 1 October 2008 were stated at relevant amount. During the year ended 30 September 2009, all leasehold building have been disposed of.

During the six months ended 31 March 2010, the directors conducted a review of the Group's property, plant and equipment and determined that a number of those assets were impaired, due to the amount of carrying amount exceeding its value-in-use. Accordingly, impairment losses of approximately HK$23,178,000 (year ended 30 September 2009: Nil) has been recognised in respect of property, plant and equipment.

19. PREPAID LEASE PAYMENTS

All the land use rights in the PRC under medium-term lease were disposed of upon the disposal of certain subsidiaries during the year ended 30 September 2009. Amortisation of prepaid lease payments of approximately HK$81,000 was charged to the consolidated income statement for the year ended 30 September 2009.

20. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

The balance represents RMB50,000,000 and RMB30,000,000 as at 31 March 2010 and 30 September 2009 respectively (equivalent to approximately HK$56,787,000 and approximately HK$34,002,000 as at 31 March 2010 and 30 September 2009 respectively) paid to an independent third party as a deposit for the acquisition of land use rights in the PRC. The Group is in the process of obtaining the land use rights certificate from the relevant government authority. Details of the capital commitment are disclosed in Note 47.

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For the six months ended 31 March 2010

21. GOODWILL

	HK$'000
COST	
At 1 October 2008	920,886
Acquisition of a subsidiary *(Note 43)*	1,006
Disposal of a subsidiary *(Note 44)*	(1,006)
Adjustments to measurement of consideration for acquisitions *(Note)*	(160,000)
At 30 September 2009 and 31 March 2010	760,886
IMPAIRMENT	
At 1 October 2008	37,737
Impairment loss recognised	161,429
At 30 September 2009	199,166
Impairment loss recognised	56,658
At 31 March 2010	255,824
CARRYING VALUES	
At 31 March 2010	505,062
At 30 September 2009	561,720

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to two individual cash generating units (CGUs), including subsidiaries operating in environmental protection segment and shallow ground energy segment. The carrying values of goodwill (net of accumulated impairment losses) at the end of the reporting period allocated to these units are as follows:

	31 March 2010	30 September 2009
	HK$'000	*HK$'000* (Restated)
Environmental protection	–	56,658
Shallow ground energy	**505,062**	505,062
	505,062	561,720

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For the six months ended 31 March 2010

21. GOODWILL *(Continued)*

The Group conducted impairment review on goodwill attributable to each of the respective CGUs concerned at end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the relevant CGUs have been determined based on a value-in-use calculation. That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a 5-year period, with discount rate of 13% (30 September 2009: 13%) per annum. The cash flows beyond the one year period were extrapolated using a steady growth rate of 8.5% (year ended 30 September 2009: 8.5%) for shallow ground energy segment. The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. No growth rate is applied in environmental protection segment (year ended 30 September 2009: nil). The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of CGUs to exceed theirs aggregate recoverable amount.

According to the result of such review, the Group recognised an impairment loss of HK$56,658,000 for the six months ended 31 March 2010 (year ended 30 September 2009: HK$161,429,000) in relation to goodwill allocated to environmental protection business.

Note:

In relation to the 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, 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 Lisai 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 is less than RMB160,000,000 (“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; or (b) at the option of China Standard transfer to II Networks for no consideration the Lisai Convertible Notes (Note 40) for such principal amount equivalent to such shortfall.

At the end of the Guaranteed Period, Shenzhen Lisai incurred losses for the Guaranteed Period and could not reach the Guaranteed Profit. The board of directors of the Company therefore considered it appropriate that an amount of HK$160,000,000 was deducted from the goodwill arising in the acquisition of Lidesui and Lisai Gardens.

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22. INTANGIBLE ASSETS

	Technical know-how *HK$'000*	Deferred development costs *HK$'000*	Total *HK$'000*
COST			
At 1 October 2008	5,674	6,285	11,959
Exchange adjustments	(21)	–	(21)
Written off	–	(6,285)	(6,285)
At 30 September 2009	5,653	–	5,653
Exchange adjustments	12	–	12
At 31 March 2010	5,665	–	5,665
AMORTISATION			
At 1 October 2008	600	6,285	6,885
Exchange adjustments	(8)	–	(8)
Charge for the year	1,193	–	1,193
Eliminated on written off	–	(6,285)	(6,285)
At 30 September 2009	1,785	–	1,785
Exchange adjustments	4	–	4
Charge for the period	596	–	596
At 31 March 2010	2,385	–	2,385
CARRYING VALUES			
At 31 March 2010	3,280	–	3,280
At 30 September 2009	3,868	–	3,868

The above technical know-how was acquired through the acquisition of Beijing Enterprises Ever Source Limited and its subsidiaries during the year ended 30 September 2008. The technical know-how is amortised over its respective useful life of ten years on a straight-line basis.

Deferred development costs, which were fully amortised, were written off during the year ended 30 September 2009.

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23. INTERESTS IN ASSOCIATES

	31 March 2010 HK$'000	30 September 2009 HK$'000
Cost of unlisted investments in associates	**34,976**	34,976
Share of post-acquisition profits and losses and other comprehensive income	**22**	(282)
	34,998	34,694

As at 31 March 2010 and 30 September 2009, the Group had interests in the following associates:

Name of entity	Form of entity	Place of incorporation/ registration	Class of shares held	Proportion of nominal value of equity interest held by the Group 31 March 2010	30 September 2009	Principal activity
Ever Source Investment Management Company Limited	Limited liability company	PRC	Registered share capital of RMB79,000,000	**37.97%**	37.97%	Provision of air-conditioning service
北京愛華冷氣技術有限公司	Limited liability company	PRC	Registered share capital of RMB1,426,100	**48%**	48%	Development of cooling technology

Included in the cost of investments in associates is goodwill of HK$482,000 (30 September 2009: HK$482,000) arising on acquisition of an associate during the year ended 30 September 2009.

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

	31 March 2010 HK$'000	30 September 2009 HK$'000
Current assets	**56,194**	70,501
Non-current assets	**50,423**	31,472
Total assets	**106,617**	101,973
Current liabilities and total liabilities	**15,663**	12,094
Net assets	**90,954**	89,879
Group's share of net assets of associates	**35,480**	34,212

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For the six months ended 31 March 2010

23. INTERESTS IN ASSOCIATES *(Continued)*

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Revenue	**6,496**	5,088
Profit (loss) for the period/year	**549**	(393)
Other comprehensive income	**–**	–
Group's share of profits (losses) and other comprehensive income (expense) of associates for the period/year	**214**	(145)

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year ended 30 September 2009, Xilinhot City Ever Source New Energy and Thermal Limited, a jointly controlled entity in which the Group had 52.8% equity interest was wound up and loss on winding up of approximately HK$9,793,000 was recognised. In addition, share of profit of this jointly controlled entity of approximately HK$19,000 was recognised in the consolidated income statement for the year ended 30 September 2009.

25. AVAILABLE-FOR-SALE INVESTMENTS

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000*
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note a)*	**488**	487
Equity securities, at fair value *(Note b)*	**–**	24,371
	488	24,858

Notes:

(a) These unlisted equity securities issued by private entities incorporated in the PRC are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(b) These unlisted equity securities issued by private entity incorporated in the PRC were measured at fair values.

On 30 March 2010, the Group disposed of the entire holding of such securities to an independent third party, at a consideration of RMB33,165,000 (equivalent to approximately HK$37,667,000).

The Group had received a partial payment of the consideration of RMB20,000,000 (equivalent to approximately HK$22,715,000) up to the end of the reporting period. The balance of the consideration of RMB13,165,000 (equivalent to approximately HK$14,952,000) is expected to be received within twelve months from the end of the reporting period according to the terms set forth in the relevant agreement and has been included in other receivables under current assets.

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For the six months ended 31 March 2010

26. OTHER RECEIVABLE

The amount of HK$12,875,000 represented the deferred consideration which arose from the disposal of a 54% owned subsidiary during the six months ended 31 March 2010 as disclosed in Note 44(a), which will be fully repaid by 31 December 2013 in installments. The consideration due within one year of HK$6,036,000 as at 31 March 2010 has been included in other receivables under current assets. The Group did not hold any collateral over these balances.

27. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereof during the current period and prior year:

	Allowance for doubtful debts *HK$'000* *(Restated)*
At 1 October 2008	23,841
Exchange adjustments	(55)
Credited to consolidated income statement for the year	1,404
At 30 September 2009	25,190
Exchange adjustments	13
Charged to consolidated income statement for the period	(2,401)
At 31 March 2010	22,802

At 30 September 2009, the Group had unused tax losses of approximately HK$14,740,000 (31 March 2010: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams of the group entities to which they relate. All unrecognised tax losses have been utilised during the six months ended 31 March 2010.

As at 31 March 2010, the Group has deductible temporary differences of approximately HK$23,178,000 (30 September 2009: Nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB86,683,000 (30 September 2009: RMB42,354,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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28. INVENTORIES

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
Raw materials	**53,143**	56,527
Work-in-progress	**8,809**	8,991
Finished goods	**9,140**	7,284
	71,092	72,802

29. TRADE AND RETENTION RECEIVABLES

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

29. TRADE AND RETENTION RECEIVABLES *(Continued)*

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
Prepayments	**5,893**	12,753
Deposits	**38,224**	38,349
Other receivables *(Note)*	**36,416**	221,409
Less: allowance for doubtful debts	**(2,269)**	–
	78,264	272,511

The Group did not hold any collateral over these balances.

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

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
Balance at beginning of period/year	**–**	–
Impairment losses recognised	**2,269**	–
Balance at end of the period/year	**2,269**	–

Note:

As at 30 September 2009, amount of HK$160,000,000 included in other receivables represented compensation receivable from China Standard arising from the Guaranteed Profit of Shenzhen Lisai. China Standard was liable to pay for the shortfall of the Guaranteed Profit either by cash or transfer of Lisai Convertible Notes to the Group at no consideration pursuant to Lisai Agreements (Note 21). As at 30 September 2009, the directors of the Company considered that it was an appropriate way to recognise a receivable which was approximate to its fair value.

During the six months ended 31 March 2010, the Group derecognised the compensation receivables of HK$160,000,000 upon cancellation of convertible notes with a principal amount of HK$160,000,000 held by China Standard as fulfillment of such compensation according to terms set out in the Lisai Agreement (Note 40).

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31. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	31 March 2010 HK$'000	30 September 2009 HK$'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	627,002	505,182
Less: progress billings	(483,899)	(366,303)
	143,103	138,879
Analysed for reporting purposes as:		
Amounts due from customers for contract work	160,424	171,601
Amounts due to customers for contract work	(17,321)	(32,722)
	143,103	138,879

As at 31 March 2010, retentions held by customers for contract work included in trade and retention receivables amounted to HK$24,475,000 (30 September 2009: HK$22,637,000). Advances received from customers for contract works included in deposits received amounted to HK$4,957,000 (30 September 2009: HK$12,269,000). At the end of both reporting periods, the management expected that both the retentions held by customers for contract works and advances received from customers for contract works would be realised within twelve months after the end of the respective reporting period.

32. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS

Particulars of amounts due from non-controlling shareholders disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Maximum amount outstanding during the period HK$'000	31 March 2010 HK$'000	30 September 2009 HK$'000
北京市密雲縣工業開發區總公司	2,556	2,556	2,551
北京市四博連通用機械新技術公司	2,023	2,014	2,023
		4,570	4,574

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

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33. HELD-FOR-TRADING FINANCIAL ASSETS

	31 March 2010 *HK$'000*	30 September 2009 *HK$'000*
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**56**	1,625

The equity securities listed in Hong Kong are stated at fair values which are determined based on the quoted market bid price available on the relevant stock exchange.

34. CASH HELD AT NON-BANK FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Cash held at non-bank financial institutions carried interest at 0.0001% per annum (year ended 30 September 2009: 0.0001%).

Bank balances carried interest at floating rates based on daily bank deposit rates.

35. TRADE PAYABLES

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

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

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

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36. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	31 March 2010 HK$'000	30 September 2009 HK$'000
Accrued liabilities	**10,665**	7,689
Deposits received	**44,992**	40,737
Other payables	**14,155**	34,732
	69,812	83,158

37. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS/AN INVESTEE COMPANY

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

38. AMOUNT DUE TO AN ASSOCIATE

As at 31 March 2010, the amount is unsecured, interest-free and repayable on demand.

As at 30 September 2009, included in the amount due to associate was an amount of approximately HK$13,601,000 which was unsecured, carried interest at 5% per annum and was repayable on demand. This amount was fully repaid during the six months ended 31 March 2010. The remaining amounts as at 30 September 2009 were unsecured, interest-free and repayable on demand.

39. OTHER LOANS

	31 March 2010 HK$'000	30 September 2009 HK$'000
Unsecured other loans	–	6,800
Carrying amount repayable:		
On demand or within one year	–	1,133
More than one year, but not exceeding two years	–	5,667
	–	6,800
Less: Amounts due within one year shown under current Liabilities	–	(1,133)
	–	5,667

As at 30 September 2009, the other loans represented loans from a non-controlling shareholder. The amounts were unsecured and bore interest ranged from 6.00% to 7.56% per annum.

The amounts had been derecognised upon disposal of a subsidiary as set out in Note 44(a).

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40. 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 independent 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$0.4 per share and such conversion price has been adjusted to HK$1.6 per share effective from 1 February 2010 as a consequence of the Company's share consolidation. 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 and such conversion price has been adjusted to HK$1.2 per share effective from 1 February 2010 as a consequence of the Company's share consolidation. 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 representing the equity component is included in shareholders' equity named as convertible notes reserves.

On 31 March 2010, the Company cancelled the Lisai Convertible Notes according to the terms set out in the Lisai Agreement on the ground that Shenzhen Lisai could not meet the Guaranteed Profit. A gain of approximately HK$13,953,000 was recognised in the consolidated income statement. The equity component in relation to the Lisai Convertible Notes were released to the accumulated losses accordingly.

	Lisai Convertible Notes		**HYY Convertible Notes**		
	Liability component	**Equity component**	**Liability component**	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)	(Restated)
At 1 October 2008	108,667	60,210	123,056	87,910	379,843
Imputed interest charged	10,775	–	14,645	–	25,420
At 30 September 2009	119,442	60,210	137,701	87,910	405,263
Imputed interest charged	5,911	–	8,218	–	14,129
Upon cancellation	(125,353)	(60,210)	–	–	(185,563)
At 31 March 2010	–	–	145,919	87,910	233,829

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

41. DEFERRED INCOME

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
Balance at beginning of the period/year	**25,179**	9,989
Exchange adjustments	**77**	(30)
Government grants received	**12,807**	16,004
Amortisation of deferred income on government grants	**(1,495)**	(784)
Disposal of subsidiaries	**(32,110)**	–
Balance at end of the period/year	**4,458**	25,179

Certain subsidiaries of the Group received government grants subsidising purchase of plant and equipment for specified purposes. 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 period, deferred income of approximately HK$1,495,000 (year ended 30 September 2009: HK$784,000) was amortised and recognised in the consolidated income statement.

42. SHARE CAPITAL

	Number of shares US$0.01 each		**Number of shares US$0.04 each**		**Share capital**		**Share capital**	
	31 March 2010	30 September 2009	**31 March 2010**	30 September 2009	**31 March 2010**	30 September 2009	**31 March 2010**	30 September 2009
	'000	*'000*	***'000***	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares								
Authorised:								
At beginning of the period/year	**8,000,000**	8,000,000	**–**	–	**80,000**	80,000	**624,000**	624,000
Share consolidation *(Note b)*	**(8,000,000)**	–	**2,000,000**	–	**–**	–	**–**	–
Increase in the period *(Note c)*	**–**	–	**2,000,000**	–	**80,000**	–	**624,000**	–
At end of the period/year	**–**	8,000,000	**4,000,000**	–	**160,000**	80,000	**1,248,000**	624,000
Issued and fully paid:								
At beginning of the period/year	**6,753,112**	5,653,112	**–**	–	**67,531**	56,531	**526,735**	440,935
Placing of new shares *(Note a)*	**–**	1,100,000	**–**	–	**–**	11,000	**–**	85,800
Share consolidation *(Note b)*	**(6,753,112)**	–	**1,688,278**	–	**–**	–	**–**	–
Exercise of share options *(Note d)*	**–**	–	**8,500**	–	**340**	–	**2,652**	–
At end of the period/year	**–**	6,753,112	**1,696,778**	–	**67,871**	67,531	**529,387**	526,735

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

42. SHARE CAPITAL *(Continued)*

Notes:

(a) On 25 May 2009, the Company allotted and issued an aggregate of 1,100,000,000 ordinary 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. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 6 February 2009 and rank pari passu with other shares in issue in all respects.

(b) Pursuant to an ordinary resolution passed in the annual general meeting on 1 February 2010, every four ordinary shares of US$0.01 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of US$0.04 each with effective from 2 February 2010 (the "Share Consolidation").

Upon the Share Consolidation, the authorised share capital of the Company remains at US$80,000,000, divided into 2,000,000,000 ordinary shares of US$0.04 each. The issued share capital of the Company was changed from 6,753,112,000 ordinary shares of US$0.01 each to 1,688,278,000 ordinary shares of US$0.04 each.

(c) Pursuant to an ordinary resolution passed in the annual general meeting on 1 February 2010, the authorised share capital of the Company was increased from US$80,000,000 to US$160,000,000 by the creation of an additional 2,000,000,000 ordinary shares of US$0.04 each which rank pari passu with the existing shares in all respects.

(d) During the six months ended 31 March 2010, 8,500,000 ordinary shares of US$0.04 each were issued at a price of HK$0.3304 per share upon exercise of share options granted on 23 June 2009. The new ordinary shares issued rank pari passu with the existing shares in all respects.

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For the six months ended 31 March 2010

43. ACQUISITION OF SUBSIDIARIES

For year ended 30 September 2009

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$3,636,000). 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 net assets acquired in the transaction, and the goodwill arising, are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	28
Inventories	4,472
Trade receivables	1,066
Prepayments, deposits and other receivables	123
Amount due from a shareholder	2,356
Bank balances and cash	4,850
Accrued liabilities, deposits received and other payables	(7,964)
	4,931
Interest in an associate held before the acquisition	(2,301)
Goodwill	1,006
Total consideration	3,636
Satisfied by:	
Cash	3,636
Net cash inflow arising on acquisition:	
Cash consideration paid	(3,636)
Bank balances and cash acquired	4,850
	1,214

The fair values of all assets and liabilities acquired as of the respective acquisition date approximate their carrying amounts.

The subsidiary acquired did not have significant contribution to the Group's results and cash flows for the year ended 30 September 2009.

The goodwill arising on acquisition of a subsidiary was attributable to the expected profitability of King Feng in the foreseeable future.

If the acquisition had been completed on 1 October 2008, total group revenue for the year would have been HK$325,148,000, and loss for the year would have been HK$171,668,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 October 2008, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

44. DISPOSAL OF SUBSIDIARIES

For the six months ended 31 March 2010

(a) On 30 March 2010, the Group disposed of a 54% owned subsidiary, Dalian Ever Source Energy Exploration Limited ("Dalian Ever Source") to an independent third party at a consideration of RMB17,149,000 (equivalent to approximately HK$19,479,000). The net assets of Dalian Ever Source at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	73,863
Inventories	54
Trade receivables	241
Other receivables	14,194
Bank balances and cash	2,301
Trade payables	(17,274)
Other payables	(684)
Amount due to a non-controlling shareholder	(155)
Other loans	(25,429)
Tax payables	(21)
Deferred income	(32,110)
	14,980
Non-controlling interest	(2,197)
Release of exchange translation reserve	(1,768)
	11,015
Gain on disposal	8,464
Total consideration	19,479
Satisfied by:	
Cash	568
Deferred consideration (*Note)*	18,911
	19,479
Net cash outflow arising on disposal:	
Cash consideration	568
Bank balances and cash disposed of	(2,301)
	(1,733)

During the period from 1 October 2009 to 31 March 2010, Dalian Ever Source contributed approximately HK$7,936,000 to the Group's revenue and a loss of approximately HK$7,790,000 to the Group's loss for the period.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the six months ended 31 March 2010 *(Continued)*

(a) *(Continued)*

Note: Deferred consideration comprised of approximately RMB5,527,000 (equivalent to approximately HK$6,278,000) to be received on 31 December 2010. The remaining balance of approximately RMB12,896,000 (equivalent to approximately HK$14,647,000) to be received twelve months after the reporting period in three installments was stated at amortised cost using the effective interest method discounted at 5.4% per annum. The imputed interest of approximately RMB1,774,000 (equivalent to approximately HK$2,014,000) was deducted from the deferred consideration.

(b) On 30 March 2010, the Group disposed of a wholly-owned subsidiary, Future Faith Group Limited and its subsidiaries, TM Technology Corporation and Chengdu TM Technology Corporation ("Future Faith Group") to an independent third party at minimal consideration. The net liabilities of Future Faith Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of:	
Bank balances and cash	3
Trade and bills payables	(155)
Accrued liabilities, deposits received and other payables	(5,749)
	(5,901)
Release of exchange translation reserve	1,739
	(4,162)
Gain on disposal	4,162
Total consideration	–
Satisfied by:	
Cash	–
Net cash outflow arising on disposal:	
Cash consideration	–
Bank balances and cash disposed of	(3)
	(3)

Future Faith Group had no significant contribution to the Group's results and cash flows for the six months ended 31 March 2010.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the six months ended 31 March 2010 *(Continued)*

(c) On 30 March 2010, the Group disposed of an indirect wholly-owned subsidiary, Telechina Group Limited and its subsidiary Hunan Modern Time Technology Limited ("Telechina Group") to an independent third party at minimal consideration. The assets and liabilities of Telechina Group as at the date of disposal were insignificant and therefore no significant gain or loss arose upon such disposal.

Telechina Group had no significant contribution to the Group's results and cash flows for the six months ended 31 March 2010.

For the year ended 30 September 2009

(d) On 8 September 2009, the Group disposed of an indirectly wholly-owned subsidiary, FFL Group to an independent third party at a consideration of HK$2,000,000. The net liabilities of FFL Group at the date of disposal were as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	17,682
Prepaid 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
Bank balances and cash	3,374
Trade payables	(27,631)
Accrued liabilities, deposits received and other payables	(13,182)
Amount due to a former shareholder	(9,862)
Amounts due to directors	(11,762)
Amount due to a non-controlling shareholder	(808)
Other loans	(29,743)
	1,915
Non-controlling interests	(11,384)
Amount due from the Group assigned to the acquirer	9,862
Release of translation reserve	(515)
	(122)
Gain on disposal	2,122
Total consideration	2,000
Satisfied by:	
Cash	2,000
Net cash outflow arising on disposal:	
Cash consideration	2,000
Bank balances and cash disposed of	(3,374)
	(1,374)

The impact of FFL Group on the Group's results and cash flows for the year ended 30 September 2009 is disclosed in Note 13.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 30 September 2009 *(Continued)*

(e) On 25 July 2009, the Group disposed of a wholly-owned subsidiary, King Feng to an associate, Ever Source Investment Management Co., Ltd., for a consideration of RMB11,000,000 (equivalent to approximately HK$12,498,000). A gain on disposal of approximately HK$6,083,000 arose from this disposal. The net assets of King Feng at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	25
Inventories	2,000
Trade and retention receivables	1,435
Prepayments, deposits and other receivables	129
Amount due from a former shareholder	2,417
Bank balances and cash	3,673
Trade payables	(33)
Accrued liabilities, deposits received and other payables	(4,237)
	5,409
Goodwill	1,006
	6,415
Gain on disposal	6,083
Total consideration	12,498
Satisfied by:	
Cash	12,498
Net cash inflow arising on disposal:	
Cash consideration	12,498
Bank balances and cash disposed of	(3,673)
	8,825

King Feng had no significant contribution to the Group's results and cash flows for the year ended 30 September 2009.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

45. MAJOR NON-CASH TRANSACTIONS

(a) The settlement of compensation receivable of approximately HK$160,000,000 for shortfall in respect of the Profit Guarantee under the Lisai Agreement was effected through the cancellation of Lisai Convertible Notes during the six months ended 31 March 2010.

(b) As at 31 March 2010, deferred consideration of HK$12,875,000 and HK$6,036,000 in relation to the disposal of Dalian Ever Source as disclosed in Note 44(a) were included in other receivables under non-current assets and current assets respectively.

(c) As at 31 March 2010, there was a balance consideration of RMB13,165,000 (equivalent to HK$14,952,000) in relation to the disposal of available-for-sale investments as disclosed in Note 25(b) and was included in other receivables under current assets.

(d) During the six months ended 31 March 2010, other receivables of approximately RMB20,000,000 (equivalent to approximately HK$22,672,000) has been set off against other payables with the same amount.

(e) During the six months ended 31 March 2010, other receivables of approximately RMB20,000,000 (equivalent to approximately HK$22,715,000) has been settled to the consideration for deposit paid for acquisition of land use rights.

46. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 March 2010	30 September 2009
	HK$'000	*HK$'000*
Within one year	**7,174**	7,867
In the second to fifth years inclusive	**20,070**	13,679
Over five years	**28,584**	36,374
	55,828	57,920

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarter. Leases are negotiated for an average term ranging from one to thirty years. No provision for contingent rent was established in the leases.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

47. CAPITAL COMMITMENTS

	31 March 2010 HK$'000	30 September 2009 HK$'000 (Restated)
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	**23,851**	23,801
– Acquisition of property, plant and equipment	**1,170**	1,587
– Acquisition of land use rights	**160,139**	159,809
	185,160	185,197

48. SHARE-BASED PAYMENT TRANSACTIONS

The principal purpose of the share option schemes of the Company is to recognise 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.

(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 full 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 31 March 2010, the number of shares issuable under share options granted under the Share Option Plan was 137,525,000, which represented approximately 8.1% of the Company's shares in issue as at that date.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

48. SHARE-BASED PAYMENT TRANSACTIONS *(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.

Details of specific categories of options granted under the Share Option Plan are as follows:

Batch	Date of grant	Vesting period	Exercise period	Exercise price per share Before adjustments	After adjustments *(Note)*
Grant 1	1 March 2002	N/A	1 March 2002 to 21 December 2011	HK$0.4750	HK$1.9000
Grant 2	7 March 2002	N/A	7 March 2002 to 21 December 2011	HK$0.4650	HK$1.8600
Grant 3	5 June 2003	N/A	5 June 2003 to 21 December 2011	HK$0.0780	HK$0.3120
Grant 4	29 May 2007	29 May 2007 to 28 May 2008	29 May 2008 to 21 December 2011	HK$0.2140	HK$0.8560
		29 May 2007 to 28 May 2009	29 May 2009 to 21 December 2011		
		29 May 2007 to 28 May 2010	29 May 2010 to 21 December 2011		
Grant 5	23 June 2009	N/A	23 June 2009 to 21 December 2011	HK$0.0826	HK$0.3304

Note:

The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Consolidation which became effective on 2 February 2010, as detailed in Note 42(b), the exercise price and the number of the share options outstanding were adjusted accordingly.

Notes to the Consolidated Financial Statements

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48. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Share Option Plan *(Continued)*

The following table discloses movements of the Company's share options held by employees (including Directors) during the period/year:

Six months ended 31 March 2010

Date of grant	Outstanding at 1 October 2009	Lapsed during the period before adjustment	Adjusted during the period *(Note)*	Outstanding immediately after adjustment	Exercised during the period after adjustment	Lapsed during the period after adjustment	Outstanding at 31 March 2010
Directors							
7 March 2002	10,000,000	–	(7,500,000)	2,500,000	–	–	2,500,000
5 June 2003	3,000,000	–	(2,250,000)	750,000	–	–	750,000
23 June 2009	230,000,000	–	(172,500,000)	57,500,000	(1,250,000)	–	56,250,000
	243,000,000	–	(182,250,000)	60,750,000	(1,250,000)	–	59,500,000
Employees							
1 March 2002	300,000	–	(225,000)	75,000	–	–	75,000
29 May 2007	11,000,000	–	(8,250,000)	2,750,000	–	–	2,750,000
23 June 2009	334,400,000	(800,000)	(250,200,000)	83,400,000	(7,250,000)	(950,000)	75,200,000
	345,700,000	(800,000)	(258,675,000)	86,225,000	(7,250,000)	(950,000)	78,025,000
	588,700,000	(800,000)	(440,925,000)	146,975,000	(8,500,000)	(950,000)	137,525,000
Exercisable at the end of period							136,700,000
Weighted average exercise price	HK$0.092	HK$0.083	–	HK$0.367	HK$0.330	HK$0.330	HK$0.369

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

48. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Share Option Plan *(Continued)*

Year ended 30 September 2009

Date of grant	Outstanding at 1 October 2008	Granted during the year	Lapsed during the year	Outstanding at 30 September 2009
Directors				
7 March 2002	10,000,000	–	–	10,000,000
5 June 2003	4,000,000	–	(1,000,000)	3,000,000
23 June 2009	–	230,000,000	–	230,000,000
	14,000,000	230,000,000	(1,000,000)	243,000,000
Employees				
1 March 2002	800,000	–	(500,000)	300,000
29 May 2007	12,500,000	–	(1,500,000)	11,000,000
23 June 2009	–	334,400,000	–	334,400,000
	13,300,000	334,400,000	(2,000,000)	345,700,000
	27,300,000	564,400,000	(3,000,000)	588,700,000
Exercisable at the end of year				585,400,000
Weighted average exercise price	HK$0.294	HK$0.0826	HK$0.212	HK$0.092

In respect of the share options exercised during the period ended 31 March 2010, the weighted average share price at the dates of exercise is HK$0.43 (year ended 30 September 2009: Nil).

During the year ended 30 September 2009, options were granted on 23 June 2009. The estimated fair values of the options granted on that date were approximately HK$26,357,000.

For the share options granted on 23 June 2009, the fair values were calculated using the Trinomial Option Pricing Model. The inputs into the model were as follows:

Date of grant	23 June 2009
Share price on the date of grant	HK$0.0820
Exercise price	HK$0.0826
Expected volatility	115.15%
Maturity date	21 December 2011
Risk-free rate	1.787%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price.

The Group recognised the total expense of approximately HK$907,000 (year ended 30 September 2009: HK$26,357,000) for the six months ended 31 March 2010 in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

49. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the PRC whereby the Group is required to make contributions to the Scheme at the rate of 20% (year ended 30 September 2009: 20%) of the eligible employees' basic salaries. The total expenses charged to the consolidated income statement of approximately HK$970,000 (year ended 30 September 2009: HK$1,470,000) represents contributions payable to this scheme by the Group at rates or amount specified in the rules of the scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme 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 consolidated 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, except 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. The Group's contribution to the MPF amounted to approximately HK$17,000 (year ended 30 September 2009: HK$36,000).

50. RELATED PARTY TRANSACTIONS

(a) Amounts due from/to non-controlling shareholders and associates are included in the consolidated statement of financial position. The terms are set out in Notes 32, 37, 38 and 39 respectively.

(b) During the period/year, the Group entered into the following transactions with its non-controlling shareholder and associate:

	Six months ended 31 March 2010 *HK$'000*	Year ended 30 September 2009 *HK$'000*
Operating lease payments paid to a non-controlling shareholder	**1,166**	2,656
Interest paid to an associate	**2,813**	–
Consideration of disposal of property, plant and equipment to a non-controlling shareholder	–	23,971
Consideration of disposal of property, plant and equipment to associates	–	17,267
Consideration received from disposal of a subsidiary to an associate *(Note 44(e))*	–	12,498
	3,979	56,392

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

50. RELATED PARTY TRANSACTIONS

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period/year was as follows:

	Six months ended 31 March 2010	Year ended 30 September 2009
	HK$'000	*HK$'000*
Short-term benefits	**3,468**	6,179
Retirement benefits scheme contributions	**12**	24
Share-based payment expenses	**–**	10,737
	3,480	16,940

The remuneration of the directors and key management personnel is determined having regard to the performance of the individuals.

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For the six months ended 31 March 2010

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 March 2010 HK$'000	30 September 2009 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**472**	690
Interests in subsidiaries	(a)	**895,735**	1,045,746
		896,207	1,046,436
Current assets			
Prepayments, deposits and other receivables		**1,325**	1,014
Amounts due from subsidiaries	(a)	**80,000**	100,000
Bank balances and cash		**53,913**	41,103
		135,238	142,117
Current liabilities			
Accrued liabilities and other payables		**1,165**	815
Amounts due to subsidiaries	(b)	**51,859**	46,706
		53,024	47,521
Net current assets		**82,214**	94,596
Total assets less current liabilities		**978,421**	1,141,032
Non-current liabilities			
Convertible notes		**145,919**	257,143
Net assets		**832,502**	883,889
Capital and reserves			
Share capital		**529,387**	526,735
Reserves	(c)	**303,115**	357,154
Total equity		**832,502**	883,889

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) Interests in subsidiaries

	Notes	31 March 2010 HK$'000	30 September 2009 HK$'000
Unlisted investments, at cost		**43,437**	43,437
Amounts due from subsidiaries – non-current	*(i)*	**1,083,186**	1,233,197
Amounts due from subsidiaries – current	*(ii)*	**80,000**	100,000
		1,206,623	1,376,634
Less: Impairment loss recognised on investment		**(43,437)**	(43,437)
Impairment loss recognised on amount due from subsidiaries – non-current		**(187,451)**	(187,451)
		(230,888)	(230,888)
		975,735	1,145,746
Analysed for reporting purposes as:			
Non-current asset		**895,735**	1,045,746
Current asset		**80,000**	100,000
		975,735	1,145,746

(i) The amounts due from subsidiaries are unsecured, interest-free and with no fixed repayment terms.

(ii) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

(b) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes: (Continued)

(c) Reserves

	Share premium	Convertible notes reserve	Share-based payment reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2008 (as originally stated)	506,596	123,680	779	(257,716)	373,339
Restatement of prior periods and opening balances	–	24,440	–	(2,614)	21,826
At 1 October (as restated)	506,596	148,120	779	(260,330)	395,165
Total comprehensive expense for the year	–	–	–	(63,861)	(63,861)
Transaction costs attributable to placing of new shares	(507)	–	–	–	(507)
Recognition of share-based payment expenses	–	–	26,357	–	26,357
At 30 September 2009	506,089	148,120	27,136	(324,191)	357,154
At 1 October 2009 (as originally stated)	506,089	123,680	27,136	(317,382)	339,523
Restatement of prior periods and opening balances	–	24,440	–	(6,809)	17,631
At 1 October 2009 (as restated)	506,089	148,120	27,136	(324,191)	357,154
Total comprehensive expense for the period	–	–	–	(6,502)	(6,502)
Recognition of share-based payment expenses	–	–	907	–	907
Issue of shares upon exercise of share options	1,744	–	(1,588)	–	156
Lapse of share options	–	–	(215)	215	–
Release upon cancellation of convertible notes	–	(60,210)	–	11,610	(48,600)
At 31 March 2010	507,833	87,910	26,240	(318,868)	303,115

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

For the six months ended 31 March 2010

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2010 and 30 September 2009 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				31 March 2010	30 September 2009	**31 March 2010**	30 September 2009	
II Networks International Limited[##]	BVI	Ordinary shares	US$166,667	**100%**	100%	–	–	Investment holding and trading of securities
Shenzhen Lisai Industrial Development Company Limited[#]	PRC	Registered capital	RMB30,000,000	–	–	**100%**	100%	Provision of environment protection solutions
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd.*) [#]	PRC	Registered capital	US$300,000	–	–	**100%**	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*) [#]	PRC	Registered capital	US$3,000,000	–	–	**99.97%**	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*) [#]	PRC	Registered capital	RMB1,000,000	–	–	**94.58%**	94.58%	Property management and technical support service
恒有源科技發展有限公司 (Ever Source Scientific and Technology Development Co., Ltd*) [#]	PRC	Registered capital	RMB189,188,502	–	–	**94.58%**	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*) [#]	PRC	Registered capital	RMB50,000,000	–	–	**94.58%**	94.58%	Installation of energy systems

These entities are registered as a limited liability company under the PRC law.

These entities are registered as a limited liability company under the by-laws of the BVI.

* *English name is for identification purpose only.*

Notes to the Consolidated Financial Statements

For the six months ended 31 March 2010

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results for the period/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.

None of the subsidiaries had any debt securities outstanding as at the end of the periods or at any time during both periods.

53. EVENTS AFTER THE REPORTING PERIOD

On 21 May 2010, Beijing Enterprise Ever Source Technology Limited, an indirect wholly owned subsidiary, entered into a cooperation agreement with an independent third party for the purpose of enlarging the registered capital of Beijing Ever Hot Pumps Co., Ltd, an indirect wholly-owned subsidiary, from approximately HK$2,340,000 (equivalent to USD300,000) to approximately HK$59,689,000 (equivalent to RMB52,557,000). The enlarged registered capital will be contributed by the independent third party in cash of HK$30,440,000 (equivalent to RMB26,804,000) and by Beijing Enterprise Ever Source Limited in cash and fair value of net assets held of HK$29,249,000 (equivalent to RMB25,753,000). After the enlargement and contribution, the proportion interest held by the Group in Beijing Ever Hot Pumps Co., Ltd would be diluted from 100% to 49%. The transaction has not yet been completed up to the report date.

Details of which are set out in the Company's announcement dated 27 October 2009 and 24 May 2010.

54. COMPARATIVE FIGURES

As a result of the prior period adjustments as disclosed in Note 3, certain comparative figures have been adjusted or reclassified accordingly.

In addition, reclassification of comparative figures have been made in respect of (i) allowance for doubtful debts to be presented separately from other operating expenses; (ii) gain on disposal of financial assets at fair value through profit or loss to be presented separately from revenue; (iii) gain on disposal of available-for-sale investments and gain on disposal of subsidiaries to be presented separately from other income; (iv) reversal of allowance for doubtful debts from other income; (v) impairment loss on goodwill to be presented separately from other operating expenses; and (vi) cash held at non-financial institutions to be presented separately from bank balance and cash to conform with current year's presentation for better presentation.

Dividend income has been reclassified from other income to revenue to conform with current year's presentation.

Besides, gain on disposal of subsidiaries from discontinued operation has been reclassified from other income to loss for the year from discontinued operation in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*