KAI YUAN HOLDINGS LIMITED
開源控股有限公司

(Formerly known as GUO XIN GROUP LIMITED 國新集團有限公司)
(incorporated in Bermuda with limited liability)
(Stock Code: 1215)

Annual Report 2007/2008

Contents

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors
Mr. Hu Yishi *(Chairman)*
Mr. Yip Kar Hang, Raymond (appointed on 3 March 2008)
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)

Non-executive Directors
Mr. Hu Jin Xing
Mr. Lam Cheung Shing, Richard
(redesignated on 4 July 2008)

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

AUDIT COMMITTEE
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

REMUNERATION COMMITTEE
Mr. Hu Yishi
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward

NOMINATION COMMITTEE
Mr. Hu Yushi
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

COMPANY SECRETARY
Mr. Yip Kar Hang, Raymond

STOCK CODE
1215

WEBSITE
www.kaiyuanholdings.com

PRINCIPAL REGISTRARS
Butterfield Fund Services (Bermuda) Limited
Rosebank Cenre
11 Bermudiana Road
Pembroke HM08
Bermuda

SHARE REGISTRARS
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG
Unit 4705, 47th Floor
Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

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

PRINCIPAL BANKERS
The Hong Kong and Shanghai Banking
Corporation Limited
Fubon Bank

Chairman's Statement

The past financial year had been a very important year for the future of Kai Yuan Holdings Limited (the "Company" or "Kai Yuan"). Through the acquisition of interests and obtaining of control in Tianjin Heating Development Company Limited ("Tianjin Heating"), Kai Yuan has commenced the evolution of its business portfolio towards the promising heat energy supply industry, with the prospering municipality of Tianjin being its first point of entry. Tianjin Heating is a leading heat energy supply company in Tianjin and is entitled to supply heat energy for an aggregate area of approximately 21,000,000 sq.m. in southern Tianjin. In view of the necessity of, and increase in demand for, heat energy supply in the PRC, as well as the uniqueness of heat energy supply industry, we are confident that the expansion into heat energy supply will bring sustainable and long-term profitability and growth to the Company.

I see the acquisition of Tianjin Heating only as a start of our quest of building ourselves as a leading utilities provider. Given the continued increase in demand for heat supply, particularly in the Northern and inland regions, together with the booming economy, robust industrial development and rising standards of living in the PRC, the heat supply industry is uniquely positioned to capitalize on these prevailing beneficial conditions. We believe that Tianjin Heating represents a valuable commencement for the Group's entry into the heat supply industry. We will continue to seek for opportunities in similar business across the PRC, with the aim of providing the best returns for all our stakeholders.

I would also like to take this opportunity to thank all our Board, management and staff members for their continued contributions to the success of the Company.

Hu Yishi
Chairman

21 October 2008

Management Discussion and Analysis

BUSINESS REVIEW

The turnover of the Company together with its subsidiaries (the "Group") for the year amounted to approximately HK$4,157,000 (2007: HK$13,050,000), representing a decrease of 68%. The decrease in turnover is largely attributable to the decrease in rental income subsequent to the disposal of subsidiaries in the year ended 30 June 2007. Loss attributable to shareholders amounted to approximately HK$79,346,000, compared with approximately HK$11,961,000 of the previous financial year. The increase in loss attributable to shareholders was largely attributable to i) impairment loss with respect to the Group's interests in Shanghai Underground Centre Company Limited as reflected in the share of result of a jointly controlled entity and fair value loss in relation to investment properties in the PRC; ii) increase in administrative expenses largely due to an increase in overheads and share-based payments as a result of recruiting expertise to strengthen the management team and setting up of branch office in Shanghai, PRC and an increase in exchange losses due to the appreciation of the renminbi during the year; and iii) the aforementioned decrease in turnover and associated results.

Segmental review of the Group's operations during the period is as follows:

Heat Energy Supply Operations

In January 2008, the Group announced its entering into an agreement to acquire an indirect interest of 49% in Tianjin Heating Development Co., Ltd. ("Tianjin Heating"), a market leader in the heat energy supply industry of Tianjin. Tianjin Heating is engaged in the production and supply of heat, installment, engineering and maintenance of heating systems and management of heating pipes, covering a vast area of heat energy supply within the municipality. Subsequent to the approval by shareholders at a special general meeting, the acquisition was completed in June 2008. The Group is further entrusted with an interest of 5% in Tianjin Heating by 上海元誕實業有限公司 (for English identification, Shanghai Yuandan Industry Company Limited), a shareholder of Tianjin Heating, thereby giving the Group effective control of Tianjin Heating. The acquisition of interests in Tianjin Heating was completed on 30 June 2008 and therefore no income contribution was made to the Group during the past financial year.

The acquisition of Tianjin Heating was the inaugurating step in the Group's strategy to broaden its business scope and income streams towards the provision of public utilities in the PRC, mainly focusing on heat energy supply to residential, commercial and industrial users. The three heat energy supply projects operating under Tianjin Heating, namely the Meijiang Project, the Jinxia Xindu Project and the Xiqing Nanhe Project, are designated to supply heat for the three adjacent regions of Meijiang residential District, Jinxia Xindu District and Xiqing Nanhe District at the southern fringe of Tianjin city, covering an aggregate area of over 21 million sq.m. Pursuant to a shareholders' agreement of Tianjin Heating, 天津市津熱供熱集團有限公司 (for English identification, Tianjin Jinre Heat Supply Group Company Limited), a shareholder and day-to-day operator of Tianjin Heating, guarantees that the net profits after tax of Tianjin Heating attributable to shareholders for the years ended 31 December 2007 and 2008 as reflected in the audited consolidated financial statements of Tianjin Heating shall be no less than RMB40,000,000 and RMB52,000,000 respectively.

Tianjin Heating constructs and owns the heat supply sources (such as coal-fired boilers or steam heat exchange systems), the first tier pipes spanning among the covered districts and the heat supply stations located in closer proximity to end-users. Individual end users (such as residents of individual buildings) will only enjoy the heat supplied from Tianjin Heating's heating plants if their developers have applied for connection and have contracted for the construction of relevant second tier pipe network. On the other hand, proof of heat supply is a pre-requisite for real estate developments in Northern China. Due to environmental regulations, it is often not feasible or permitted for developments to operate their own heat supply and the local heat energy supply company naturally becomes the best resource of reliable heat supply. As the first tier network has usually been laid out in accordance with city planning, it is rare for more than one heat energy supply company to operate in an overlapping area. As properties are connected to the heat energy supply company's network, revenues will be generated by way of an initial connection fee from developers and recurring heating fee from end-users, both charged based on construction area.

The Meijiang Project commenced operations in 2003 and uniquely operates a highly automated heat-exchange system sourced from Denmark with heat sourced from steam off-taken from nearby power plant. The advanced project is also chosen as the testing ground for metered charging of heating fees. The Meijiang Project has a designed heat energy supply capacity of 5.4 million sq.m. of is currently providing heat energy for an area of approximately 3.3 million sq.m. just inside the Outer Ring Road of Tianjin. The Jinxia Xindu project is located to the west of the Meijiang Project, south of the Tianjin Olympic Stadium. Its new facilities with designed heat energy supply capacity of 11 million sq.m. via on-site coal-fired boilers commenced operations in 2007 and supplied heat energy for an area of approximately 0.4 million sq.m. in the past year. Further to the West and located at Xiqing Nanhe district, which is just outside of the Outer Ring Road at the southwest side of Tianjin, the Xiqing Nanhe Project's new facilities is undergoing construction and is expected to commence operation in winter 2008. The project was conceived to replace smaller standalone heat generation boilers in the towns and universities nearby in order to improve efficiency of heat energy supply and environmental protection of Xiqing Nanhe region. The new facilities will have a designed heat energy supply capacity of 4.7 million sq.m and will replace the old facilities which supplied heat energy for an area of approximately 0.4 million sq.m. in the past year.

Property Investment Operations

The Group continues to review and restructure its property investment portfolio. Following the disposal of property investment subsidiaries in the PRC in the previous financial year, the Group disposed the residential properties situated at Treasure Garden, Pentas Court, 42C Avenida, Dr. Sun Yat Sen, Taipa, Macau in November 2007, resulting in a profit on disposal of approximately HK$675,000. Correspondingly, the rental income of the Group's commercial properties decreased to approximately HK$4,157,000 during the year (2007: HK$13,050,000).

Subsequent to the above disposals, the Group's property investments are now focused on the vibrant cities of Beijing and Shanghai.

In Beijing, The Group's 35 A-grade commercial offices and 2-levels underground parking area situated at 33 Deng Shi Kou Main Street, Wangfujing, Dong Cheng District generated rental income of approximately HK$3,662,000 (2007: HK$1,865,000) during the year and continued to achieve healthy occupancy rate of 97% (2007: 95%).

In Shanghai, rental revenues of the Group's investment, Shanghai Underground Centre Company Limited ("SUCCL") remained healthy at approximately HK$24,620,000 during the year (2007 (restated): HK$26,868,000). The conveniently-located and well-outfitted underground shopping plaza and boulevard spanning 10,000 square meters and accommodating 96 shops continues to be a highly popular sightseeing and shopping location for tourists visiting Shanghai.

Resources Investment Operations

As the Group is now focusing its resources in its heat energy supply operations and property investment operations, plans for the phosphate mining project in Zu Bao Fo Mining District in Zhongxiang City, Hebei, PRC will be suspended.

Management Discussion and Analysis

PROSPECTS

Heat Energy Supply Operations

The acquisition of Tianjin Heating has not only significantly enlarged the asset base and operations of the Group, but also marked a significant step in establishing its foothold in the heat energy supply industry.

Tianjin continues to prosper as a new economic core through synergizing with the PRC capital of Beijing. The Meijiang district, Jinxia Xindu district and Xiqing Nanhe district, where Tianjin Heating operates, are all booming areas which are just at the southern edge of the well-developed and saturated city core of Tianjin. Continued fast-paced real estate development in these areas can be expected, which not only will bring additional long term heating fee revenues to each of the projects, but will also provide a surge in connection fees as estate developments in the regions commence construction. The projects are all well positioned and the new facilities of the Jinxia Xindu Project and Xiqing Nanhe Project are well-capable of capturing the demands driven by such prosperity.

The booming economy of Tianjin and the essentiality of heat supply in its frigid climate shall continue to contribute to the development of the Group's heat energy supply business, contributing recurring cash flow and returns for the Group. Furthermore, the Group will continue to seek for further opportunities in this attractive industry, in order to accelerate development momentum and broaden the industry foothold of the Group.

Property Investment Operations

Given their prime locations and fine quality, the property investments of the Group in Beijing and Shanghai shall continue to benefit from the booming economy of the PRC, generating healthy results for the Group. The Group is confident that the continual growth of the PRC economy shall bring improving yields and values for the Group's prime properties. While it is the Company's current intention to keep the status quo in respect of its property investment business it will not preclude the chance of realising its investment in this sector or making further investment in it should the opportunity arise.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, total assets of the Group was approximately HK$1,899,340,000 (2007 (restated): HK$375,344,000) respectively, representing a substantial increase of 406%. The increase was largely due to the consolidation of Tianjin Heating upon the completion of its acquisition (the "Acquisition") prior to the year end. Net assets of the Group increased by 236% to approximately HK$1,177,546,000 compared with the previous year (2007 (restated): HK$350,254,000). The increase was largely due to the aforementioned acquisition and the completion of subscription and conversion in full of convertible notes amounting to approximately HK$310,160,000 in aggregate. During the year, the Group has announced and undertaken the following fund raising activities:

Date of announcement	Event	Status
4 December 2007	Issue of convertible notes in the aggregate principal amount of HK$139,880,000	Issued and converted in full
10 March 2008	Issue of convertible notes in the aggregate principal amount of HK$170,280,000	Issued and converted in full
27 May 2008	Issue of convertible notes to Mr. Hu Yishi, Chairman of the Company in the aggregate principal amount of HK$265,500,000	Approved at SGM on 3 July 2008

Management Discussion and Analysis

As at 30 June 2008, the Group had bank balances and cash and pledged bank deposits totaling approximately HK$52,046,000 (2007: HK$44,539,000), representing an increase of 17% compared with the previous year. The significant increase in balances from those of the previous year were largely attributable to the consolidation of Tianjin Heating subsequent to the completion of its acquisition. As a result, the Group's net current assets also increased by 265% to approximately HK$331,490,000 (2007 (restated): HK$90,817,000). As at 30 June 2008, the Group's outstanding bank borrowings amounted to approximately HK$53,990,000 (2007: HK$16,632,000), HK$20,581,000, of which was due within one year. The gearing ratio (total borrowings/total assets) increased to 21% from 4% in 2007 due to the consolidation of the accounts of Tianjin Heating.

ACQUISITIONS AND DISPOSALS

In January 2008, the Group announced its entering into a agreement to acquire indirect interest of 49% in Tianjin Heating for a consideration of HK$300,000,000. The Acquisition was approved at a SGM and was completed in June 2008. Further details of the Acquisition may be found in the section headed "Business Review" above.

In November 2007, The Group disposed the residential properties situated at Treasure Garden, Pentas Court, 42C Avenida, Dr. Sun Yat Sen, Taipa, Macau, resulting in a profit on disposal of approximately HK$675,000.

FOREIGN EXCHANGE EXPOSURE

The investment projects of the Group are located in the PRC. Loans and borrowings taken in relation to such investment projects are denominated in the local currency to match with their relevant local expenditures, thus mitigating risks arising from foreign exchange fluctuations. However, exchange risks may arise as a result of fluctuations in the value of Renminbi when translations and exchanges are made between Renminbi and Hong Kong dollar. As Renminbi is not freely convertible into other foreign currencies and cost effective hedging instruments are not widely available, no further hedging was provided and no financial instrument for hedging was employed by the Group during the year ended 30 June 2008. The Group will from time to time review and monitor the exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 30 June 2008, the Group did not have any material contingent liabilities.

PLEDGE ON THE GROUP'S ASSETS

As at 30 June 2008, the Group's bank borrowings were secured by deposits totalling approximately HK$678,000 and its investment properties with a carrying value of HK$79,002,921.

EMPLOYEES AND REMUNERATION

The Group had approximately 215 employees as at 30 June 2008 (30 June 2007: 15). The increase is largely contributed by the consolidation of Tianjin Heating. Apart from basic remuneration, the Group also provides other employee benefits including medical scheme and provident fund schemes. In addition, the Group has a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Profile of Directors

The followings are the profile of the Directors of the Company (the "Directors").

EXECUTIVE DIRECTORS

Mr. Hu Yishi

Mr. Hu Yishi, aged 32, was appointed as an executive Director and the Chairman of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) on 17 April 2007. Mr. Hu is responsible for the Group's strategic planning including business objectives and directions. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is the President of Shanghai Holdeasy Advertising Company Limited and the Director and General Manager of Shanghai Chuang Yang Advertising & Broadcasting Co., Ltd.

Mr. Hu was previously an executive director of China Pipe Group Limited and Tidetime Sun (Group) Limited (formerly known as Sun Media Group Holdings Limited), both companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Yip Kar Hang, Raymond

Mr. Yip Kar Hang, Raymond, aged 40, was appointed as an executive Director and the Chief Executive Officer of the Company on 3 March 2008 and was further appointed as company secretary of the Company on 4 July 2008. Mr. Yip is responsible for the overall financial and business operations, company secretarial matters and management of the Group. Mr. Yip has extensive experience in financial management, corporate mergers and acquisitions and company secretarial matters with various listed companies in Hong Kong. Prior to joining the Group, he founded and is a director of Radia Capital Strategy Limited. Mr. Yip was the executive director, chief financial officer and company secretary of Imagi International Holdings Limited, a Hong Kong listed company.

Mr. Yip is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He received his Master of Science degree in finance from University of Leicester and bachelor of science degree in business administration from California State Polytechnic University, Pomona.

Ms. Kwong Wai Man, Karina

Ms. Kwong Wai Man, Karina, aged 39, was appointed as an executive Director and Chief Financial Officer of the Company on 4 July 2008. Ms. Kwong joined the Company as financial controller on 15 February 2005. Ms. Kwong is responsible for the overall finance and administration functions and corporate governance enforcement of the Group.

Ms. Kwong holds a bachelor's degree in business administration from the Simon Fraser University, Canada and is a member of the American Institute of Certified Public Accountants. Ms. Kwong has extensive experience in accounting, financial management and corporate finance. Prior to joining the Company, Ms. Kwong worked for sizable organisations in various industries as senior executives in both Canada and Hong Kong. Ms. Kwong had previously served as an executive director and non-executive director of Grandmass Enterprise Solution Limited (now known as FAVA International Holdings Limited), the shares of which are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. Hu Jin Xing

Mr. Hu Jin Xing, aged 64, was appointed as an non-executive Director of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) on 04 June 2007. Mr. Hu graduated from Shanghai Normal University with a major in Chinese Language & Literature. He is the president of Shanghai Morelove Foundation and a vice president and general secretary of Shanghai Huajie Affection Foundation. He was a vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. He spent over 7 years in Shanghai Fu Xing High School as vice principal and later on as principal from October 1997 to February 2005. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kou District, Shanghai, the PRC. Mr. Hu was previously a non-executive director of China Pipe Group Limited, a company listed on the Stock Exchange.

Profile of Directors

Mr. Lam Cheung Shing, Richard

Mr. Lam Cheung Shing, Richard, aged 50, was redesignated as a non-executive Director of the Company on 4 July 2008 and has been an executive Director of the Company from 10 December 2001 to 4 July 2008. Mr. Lam is an executive director and deputy chief executive officer of Interchina Holdings Company Limited ("Interchina") and an executive director of China Pipe Group Limited, the shares of both companies are listed on the Stock Exchange. Mr. Lam holds a master degree in business administration from the Chinese University of Hong Kong and is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam held senior positions in an international accounting firm and a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, U-Cyber Technology Holdings Limited (now known as New Smart Energy Group Limited) and INNOMAXX Biotechnology Group Limited (now known as China Mining Resources Group Limited).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tam Sun Wing

Mr. Tam Sun Wing, aged 50, was appointed as an independent non-executive Director of the Company in December 2001. Mr. Tam is a professional accountant having more than 20 years of audit and business advisory experience of which 8 years were with an international accounting firm. He has also been in private practice since 1992. Mr. Tam is a director of FTW & Partners CPA Limited. He has extensive experience in providing business advisory service and conducting audits of listed and other companies in the businesses of toy manufacturing and trading, electronics, property development and holding, securities, insurance and retailing.

Mr. Ko Ming Tung, Edward

Mr. Ko Ming Tung, Edward, aged 47, was appointed as an independent non-executive Director of the Company in March 2004. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 17 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko is appointed as tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Mr. Ko was an independent non-executive director of INNOMAXX Biotechnology Group Limited (presently known as China Mining Resources Group Limited), which is listed on the Main Board of the Stock Exchange, and Thiz Technology Group Limited, which is listed of GEM Board of the Stock Exchange. He currently serves as an independent non-executive director of China Pipe Group Limited, Sinofert Holdings Limited and Plus Holdings Limited, which are listed on the main board of the Stock Exchange, and as a non-executive director of New Smart Energy Group Limited, which is listed on the main board of the Stock Exchange. Mr. Ko obtained an external bachelor of laws degree from the University of London in the United Kingdom.

Mr. Ng Ge Bun

Mr. Ng Ge Bun, aged 51, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Ng holds the Degree in Bachelor of Science and Degree in Bachelor in Laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

Corporate Governance Report

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board of Directors has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company had complied with the CG Code throughout the year ended 30 June 2008 with the following deviation:

- A4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- A4.2 The Chairman and the Group Managing Director are not, whilst holding such office, subject to retirement by rotation or taken into account in determining the number of Directors to retire in each year in accordance with the Company's Bye-laws. In the opinion of the Board, it is important for the stability and growth of the Company that there is, and is seen to be, continuity of leadership in these roles and, in consequence, the Board is of the view that both should not be subject to retirement by rotation or hold office for a limited term at the present time.

The Board will keep this matter under review. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

The key corporate governance principles and practices of the Company are summarized as follows:

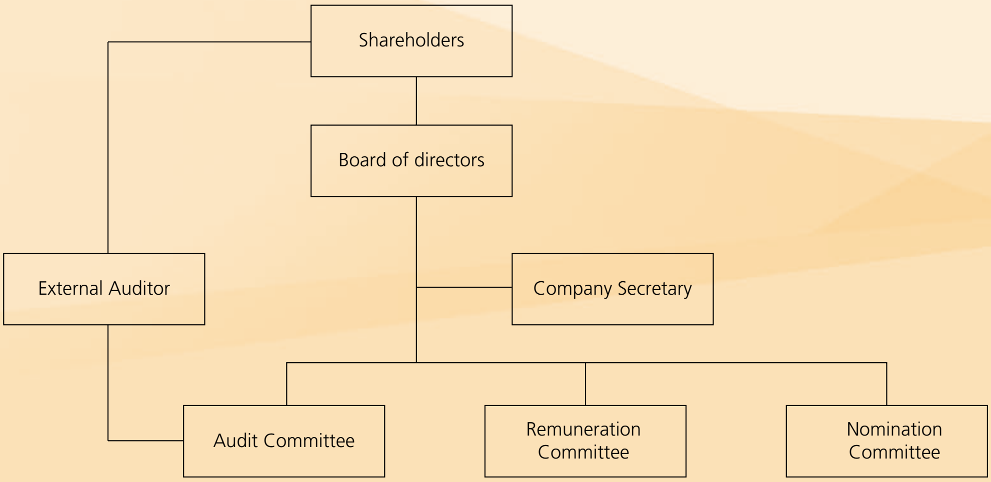
MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules. The Company has confirmed with the Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

Corporate Governance Report

THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:



BOARD

A) Board Composition

The Board currently comprises three executive Directors, two non-executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members up to the date of the annual report are as follows:

Chairman
Mr. Hu Yishi

Executive Directors
Mr. Yip Kar Hang, Raymond (appointed on 3 March 2008)
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)

Non-executive Directors
Mr. Hu Jin Xing
Mr. Lam Cheung Shing, Richard (redesigned on 4 July 2008)

Independent non-executive Directors
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

B) Role and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, Directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support of the Chief Executive Officer and senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the Directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 30 June 2008, the Board:

1. reviewed the internal control system and risk management of the Group;

2. discussed the annual and interim results of the Group for the year ended 30 June 2007 and for the period ended 31 December 2007 respectively;

3. approved the issuance of convertible note by the Group;

4. considered the recommendation of any final dividend for the year ended 30 June 2007 and the book close period, if any;

5. proposed re-election of retiring Directors;

6. approved the change of auditors from HLB Hodgson Impey Cheng ("HLB") to Deloitte Touche Tohmatsu ("Deloitte");

7. discussed the auditors remuneration for the annual audit;

8. reviewed the effects on the changes of the accounting standards and principles;

9. resolved the appointment and resignation of Chief Executive Officer and executive Directors;

10. resolved the appointment of a non-executive Director;

11. Approved to enter into a tenancy agreement in respect of Hong Kong registered office;

12. Approved change of principal place of business in Hong Kong;

13. Approved change of bank signatories;

14. approved the operating expenses of Beijing properties owned by a subsidiary company;

15. approved the grant of share option;

16. proposed the general mandates to issue and repurchase shares of the Company; and

17. reviewed and approved the very substantial acquisition/discloseable transactions/major transactions as herein below:–

Date of Announcement	Type of Transaction	Description
04 December 2007	Disclosable transaction	Issue of converible notes
06 March 2008	Major transaction	Very substantial acquisition of the entire equity interest from Spread International Group Ltd
10 March 2008	Disclosable transaction	Issue of converible notes
28 March 2008	Major transaction	Very substantial acquisition of Tianjin Heating upon completion
27 May 2008	Disclosable transaction	Issue of converible notes
10 June 2008	Disclosable transaction	Change of auditor

To the best knowledge of the Company, there is no financial, business and family relationship among our Directors between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

C) Meeting Records

There were 28 Board meetings held for the year ended 30 June 2008.

The following was an attendance record of the Board meetings held by the Board during the year:

Board Members	Attendance at meetings held for the year ended 30 June 2008
Mr. Hu Yishi	25/28
Mr. Yip Kar Hang, Raymond (appointed on 3 March 2008)	12/28
Mr. Hu Jin Xing	15/28
Mr. Lam Cheung Shing, Richard (redesignated as a non-executive director on 4 July 2008)	27/28
Mr. Tam Sun Wing	17/28
Mr. Ko Ming Tung, Edward	17/28
Mr. Ng Ge Bun	13/28
Mr. Li Zongyang, John (resigned on 5 February 2008)	9/28

D) Independent Non-executive Directors

During the year ended 30 June 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board Committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Company is Mr. Hu Yishi and Chief Executive Officer of the Company is Mr. Yip Kar Hang, Raymond (appointed on 3 March 2008).

The Chairman's responsibility is to manage the board and the Chief Executive Officer's responsibility is to manage the Company's business. The division of responsibilities between the Chairman and Chief Executive Officer is clearly established and set out in the Code of Corporate Governance of the Company.

BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

A) Audit Committee

On 14 December 2001, the Audit Committee had been established. It currently consists of three independent non-executive Directors.

Composition of Audit Committee members for the year ended 30 June 2008:

Mr. Tam Sun Wing *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Audit Committee is mainly responsible for:

1. discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2. reviewing the draft Company's annual report and accounts and interim report before submission to, and to give advices and comments thereon on to the Board of Directors;

3. considering the appointment of external auditors, their audit fees and questions of resignation or dismissal;

4. discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5. assessing the risk environment and review internal control procedure manual of the Group.

Meeting Record

The Audit Committee met two times during the year, particular in reviewing the interim and annual results, and the internal control of the Group.

The following was an attendance record of the Audit Committee meetings for the year ended 30 June 2008:

Committee member	**Attendance at meetings held for the year ended 30 June 2008**
Mr. Tam Sun Wing *(Chairman)*	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Ng Ge Bun	2/2

During the meeting, the Audit Committee would discuss the following matters:

1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors, and the Financial Controller of the Company were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

2) External Auditors

The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the board on the selection of external auditors of the Company.

3) Internal Control

The sufficiency and efficiency of the internal control system and risk management.

B) Remuneration Committee

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Remuneration Committee members for the year ended 30 June 2008:

Mr. Hu Yishi *(Chairman)*
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward

Role and function

The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the prevailing trend and business requirements;

2. making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some decisions are approved by way of written resolutions passed by all Remuneration Committee members.

For the year ended 30 June 2008, there were three meetings held. The following was an attendance record of the Remuneration Committee meeting for the year ended 30 June 2008:

Committee member	Attendance at meetings held for the year ended 30 June 2008
Mr. Hu Yishi	3/3
Mr. Tam Sun Wing	3/3
Mr. Ko Ming Tung, Edward	3/3

During the meeting, the Remuneration Committee discussed the incentive scheme and option scheme for all staff to enhance their motivation.

C) Nomination Committee

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and two independent non-executive Directors.

Composition of Nomination Committee members for the year ended 30 June 2008:

Mr. Hu Yishi *(Chairman)*
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

Role and function

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.4.5 of the CG Code in September 2005. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the Directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 30 June 2008, there were two meetings held. The following was an attendance record of the Nomination Committee meeting for the year ended 30 June 2008:

Committee member	Attendance at meeting held for the year ended 30 June 2008
Mr. Hu Yishi	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Ng Ge Bun	2/2

During the meetings, the Nomination Committee nominated and appointed the Directors and Chief Executive Officer of Company.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders – to communicate with them and encourage their participation – through annual general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholder is entitled to attend the annual and special general meetings, provided that his shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:

Hotline no. : 2804-2221

By post : Unit 4705, Floor 47, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

EXTERNAL AUDITORS

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also carried out interim review of the Group's results, taxation advisory service of the Group.

For the year ended 30 June 2008, Deloitte Touche Tohmatsu and HLB Hodgson Impey Cheng ("HLB"), the external auditors provided following services to the Group:

	Deloitte Touche Tohmatsu *HK$'000*	HLB *HK$'000*
Annual audit services	1,750	132
Taxation advisory services	–	53
Other advisory services	1,352	–

INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The Committee reviewed the Group's procedure and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also put forward to the Board for consideration and approval.

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to Shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans.

Regular meetings are also held with institutional investors and analysts to disseminate financial and other information related to the Group and its business. These activities keep the public aware of the Group's activities and foster effective communication.

Corporate Governance Report

For the year ended 30 June 2008, the following shareholder meeting was held by the Company:

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
23 October 2007	1st Floor, The Wesley, 22 Hennessy Road, Wanchai, Hong Kong.	Special General Meeting	1. To change company name and adoption of chinese name 2. To increase authorised share capital	By show of hands
23 November 2007	Plaza I-III, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong.	Annual General Meeting	1. To adopt the audited financial statements and the reports of the directors and auditors 2. To re-elect retiring directors and to authorize the Board of Directors to fix their remuneration 3. To re-appoint HLB Hodgson Impey Cheng as company auditors and authorize the Board of Directors to determine their remuneration 4. To approve the general mandates to issue and repurchase shares of the Company	By show of hands
17 April 2008	Elbrus Room, Pacific Place Conference Centre, 5/F., One Pacific Place, 88 Queensway, Hong Kong.	Special General Meeting	1. To approve the issuance of convertible notes and refreshment of share option scheme Mandate limit	By poll
11 June 2008	Elbrus Room, Pacific Place Conference Centre, 5/F., One Pacific Place, 88 Queensway, Hong Kong.	Special General Meeting	1. To approve the acquisition of Spread International Group Limited	By show of hands

CAPITAL STRUCTURE AND SHAREHOLDER BASE

As at 30 June 2008, the market capitalization of the Company was HK$1,138,818,102 and 7,117,613,140 shares were in issue, each with a par value of HK$0.10. The following table summarized the existing shareholding structure of the Company:

By Category	No. of Shares	% of issued share capital of the Company
Mr. Hu Yishi	44,720,000	0.63%
Morich International Investments Limited (a company beneficially and wholly owned by Mr. Hu Yishi)	446,930,000	6.28%
Public shareholders	6,625,963,140	93.09%
Total	7,117,613,140	100%

FINANCIAL CALENDAR FOR 2007/08

Event	Proposed Date
Announcement of 2007/08 annual results	21 October 2008
Annual General Meeting	25 November 2008
Announcement of interim results	mid March 2009

Report of the Directors

The Board of Directors present their annual report and the audited financial statements for the year ended 30 June 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries is set out in note 44 to the financial statements.

RESULTS

The results of the Group for the year ended 30 June 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statement on page 28 to 86.

The Directors did not recommend the payment of a dividend for the year ended 30 June 2008.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five years is set out on page 87.

MAJOR CUSTOMERS

During the year, the largest customer of the Group by itself and together with the next four largest customers accounted for about 13% and 44% respectively of the Group's turnover.

All transactions between the Group and the customers concerned were carried out on normal commercial terms.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year is set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year is set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the Share Capital of the Group during the year is set out in note 35 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the year is set out in the consolidated statement of changes in equity on page 31.

DISTRIBUTABLE RESERVE

At 30 June 2008, the Company had no reserve available for distribution to Shareholders.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:
Mr. Hu Yishi
Mr. Yip Kar Hang, Raymond (appointed on 3 March 2008)
Ms. Kwong Wai Man, Karina (appointed on 4 July 2008)
Mr. Li Zongyang, John (resigned on 5 February 2008)

Non-executive Director:
Mr. Hu Jin Xing
Mr. Lam Cheung Shing, Richard (redesignated as a non-executive director on 4 July 2008)

Independent Non-executive Directors:
Mr. Tam Sun Wing
Mr. Ko Ming Tung, Edward
Mr. Ng Ge Bun

The Directors of the Company, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE NOTES

At 30 June 2008, the interests of the Directors and their associates in the Shares underlying shares and convertible note of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions – ordinary shares of HK$0.1 each of the Company

Name of Director	Capacity	Number of shares held as corporate interests	Percentage of the issued share capital of the Company
Mr. Hu Yishi	Corporate *(Note)*	446,930,000	6.28%
Mr. Hu Yishi	Personal	44,720,000	0.63%

Note: These Shares are held by Morich International Investments Limited, a company beneficially owned by Mr. Hu Yishi.

Long positions – share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	43,720,000	43,720,000
Mr. Yip Kar Hang, Raymond	Beneficial owner	56,000,000	56,000,000
Ms. Kwong Wai Man, Karina	Beneficial owner	10,000,000	10,000,000
Mr. Hu Jin Xing	Beneficial owner	43,720,000	43,720,000
Mr. Lam Cheung Shing, Richard	Beneficial owner	43,720,000	43,720,000

Long positions – convertible notes

Name of Directors	Capacity	Amount of convertible notes (HK$)	Number of underlying shares
Mr. Hu Yishi	Beneficial owner	265,500,000	1,500,000,000

Note: The Company and Mr. Hu Yishi entered into a subscription agreement in relation to the convertible notes on May 26, 2008. Completion of the subscription has yet to take place and no convertible note had been issued as of 30 June 2008.

Save as disclosed above, none of the Directors or their associates had any interests or short positions in any Shares of the Company or any of its associated corporate as at 30 June 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme is set out in note 41 to the financial statements.

Particulars of the Company's share option granted and exercised is set out in note 41 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interests disclosed above in respect of the Director, Mr. Hu Yishi, no other person has a notifiable interest or short position in the issued share capital of the Company as at 30 June 2008.

PURCHASE, SALE OR REDEMTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on page 10 to 21 of this report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June 2008.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive Directors of Mr. Tam Sun Wing, Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun. The Audit Committee has reviewed the accounting policies and practices adopted and the audited results of the Group for the year. The audited results for the year ended 30 June 2008 have been reviewed by the Audit Committee. The Audit Committee is satisfied with the Group's internal control procedures and financial reporting disclosures. The Audit Committee has held regular meeting since its formation, at a frequency of at least twice a year.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises one executive Director, Mr. Hu Yishi and two independent non-executive Directors of Mr. Tam Sun Wing and Mr. Ko Ming Tung, Edward.

NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director, Mr. Hu Yishi and two independent non-executive Directors of Mr. Ko Ming Tung, Edward and Mr. Ng Ge Bun.

EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance, and individual qualifications and performance.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as the auditors of the Company on 3 July 2008 following the resignation of Messrs HLB Hodgson Impey Cheng ("HLB") on 6 June 2008. HLB were the auditors of the Company in succession to Messrs. BDO McCabe Lo Limited, who resigned from the office with effect from 18 August 2006, who in turn, succeeded KLL Associates CPA Limited, auditors of the Company from 27 April 2005 to 24 February 2006.

Messrs. Deloitte Touche Tohmatsu shall retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hu Yishi
21 October 2008

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway,
Hong Kong

TO THE MEMBERS OF KAI YUAN HOLDINGS LIMITED
開源控股有限公司
(FORMERLY KNOWN AS GUO XIN GROUP LIMITED 國新集團有限公司)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 86, which comprise the consolidated balance sheet as at 30 June 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 judgment, 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 October 2008

Consolidated Income Statement

For the year ended 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000 (restated)
Revenue	6	**4,157**	13,050
Direct costs		**(121)**	(7)
Gross profit		**4,036**	13,043
Other income	7	**1,200**	6,930
Gain on disposal of subsidiaries		**–**	7,169
Gain on disposal of investment properties		**675**	–
Fair value (loss) gain on investment properties		**(1,693)**	7,507
Administrative expenses		**(46,051)**	(27,890)
Share of result of a jointly controlled entity		**(35,531)**	(6,749)
Finance costs	8	**(1,968)**	(10,073)
Loss before taxation		**(79,332)**	(10,063)
Income tax expense	9	**(14)**	(1,898)
Loss for the year	10	**(79,346)**	(11,961)
Attributable to:			
Equity holders of the Company		**(79,346)**	(11,961)
Minority interests		**–**	–
		(79,346)	(11,961)
Loss per share (Basic)	14	**HK(1.39) cents**	HK(0.26) cents

Consolidated Balance Sheet

As at 30 June 2008

	NOTES	2008 HK$'000	2007 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	15	486,756	1,900
Prepaid lease payments	16	39,785	–
Investment properties	17	108,100	110,796
Goodwill	18	29,435	–
Other intangible assets	19	387,465	–
Investment in associates	21	980	–
Interest in a jointly controlled entity	22	141,200	164,018
Available-for-sale financial assets	23	4,461	–
		1,198,182	276,714
Current assets			
Inventories	24	398	–
Trade and other receivables and prepayments	25	77,090	11,274
Prepaid lease payments	16	2,392	–
Amounts due from associates	26	115,471	–
Amounts due from related companies	27	402,826	–
Dividend receivable from a jointly controlled entity	22	50,935	42,817
Pledged bank deposits	28	678	600
Bank balances and cash	28	51,368	43,939
		701,158	98,630
Current liabilities			
Trade and other payables and accruals	29	63,449	5,677
Receipts in advance		71,784	–
Amounts due to associates	26	15,325	–
Amounts due to related companies	27	45,151	717
Deferred income – within one year		5,245	–
Obligations under finance leases	30	45	45
Borrowings – due within one year	31	20,581	1,246
Loan from a related company – due within one year	32	126,194	–
Tax payable		21,894	128
		369,668	7,813
Net current assets		331,490	90,817
Total assets less current liabilities		1,529,672	367,531

Consolidated Balance Sheet

As at 30 June 2008

	NOTES	2008 *HK$'000*	2007 *HK$'000* (restated)
Non-current liabilities			
Obligations under finance leases	*30*	**110**	144
Borrowings – due after one year	*31*	**33,409**	15,386
Loan from a related company – due after one year	*32*	**218,092**	–
Deferred income – due after one year		**27,172**	–
Deferred tax liabilities	*34*	**73,343**	1,747
		352,126	17,277
		1,177,546	350,254
Capital and reserves			
Share capital	*35*	**711,761**	538,161
Reserves		**(92,721)**	(187,907)
Equity attributable to equity holders of the Company		**619,040**	350,254
Minority interests		**558,506**	–
Total equity		**1,177,546**	350,254

The financial statements on pages 28 to 86 were approved and authorised for issue by the Board of Directors on 21 October 2008 and are signed on its behalf by:

Hu Yishi
DIRECTOR

Yip Kar Hang, Raymond
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Convertible note reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Equity total HK$'000
At 1 July 2006 (original stated)	448,468	132,230	7,396	–	1,116	(327,776)	261,434	–	261,434
Prior year adjustment *(note 3)*	–	–	–	–	–	(488)	(488)	–	(488)
At 1 July 2006 (restated)	448,468	132,230	7,396	–	1,116	(328,264)	260,946	–	260,946
Exchange difference arising on translation of foreign operations and net income recognised directly in equity (restated)	–	–	–	–	13,874	–	13,874	–	13,874
Transfer to profit or loss on disposal of subsidiaries	–	–	–	–	(1,003)	–	(1,003)	–	(1,003)
Loss for the year (restated)	–	–	–	–	–	(11,961)	(11,961)	–	(11,961)
Total recognised income and expense for the year	–	–	–	–	12,871	(11,961)	910	–	910
Repayment of convertible notes	–	–	(7,396)	–	–	397	(6,999)	–	(6,999)
Recognition of equity component of convertible notes	–	–	2,974	–	–	–	2,974	–	2,974
Issue of shares by conversion of convertible notes	89,693	5,381	(2,974)	–	–	323	92,423	–	92,423
At 30 June 2007 (restated)	538,161	137,611	–	–	13,987	(339,505)	350,254	–	350,254
Exchange difference arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	32,893	–	32,893	–	32,893
Loss for the year	–	–	–	–	–	(79,346)	(79,346)	–	(79,346)
Total recognised income and expense for the year	–	–	–	–	32,893	(79,346)	(46,453)	–	(46,453)
Recognition of equity component of convertible notes	–	–	43,333	–	–	–	43,333	–	43,333
Issue of shares upon conversion of convertible notes	173,600	128,597	(43,333)	–	–	–	258,864	–	258,864
Recognition of share based payments	–	–	–	13,042	–	–	13,042	–	13,042
Acquisition of subsidiaries	–	–	–	–	–	–	–	558,506	558,506
At 30 June 2008	711,761	266,208	–	13,042	46,880	(418,851)	619,040	558,506	1,177,546

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	2008 *HK$'000*	2007 *HK$'000* (restated)
Operating activities		
Loss before taxation	(79,332)	(10,063)
Adjustments for:		
Gain on disposal of investment property	(675)	–
Share-based payment	13,042	–
Depreciation of property, plant and equipment	1,040	294
Fair value loss (gain) on investment properties	1,693	(7,507)
Impairment loss on trade receivables	–	6,070
Finance costs	1,968	10,011
Loss on disposals of property, plant and equipment	99	105
Share of result of a jointly controlled entity	35,531	6,749
Interest income	(1,165)	(3,660)
Gain on disposal of subsidiaries	–	(7,169)
Operating cash flows before movements in working capital	(27,799)	(5,170)
Decrease (increase) in trade and other receivables and prepayments	89	(5,191)
Increase (decrease) in trade and other payables and accrued expenses	6,196	(16,821)
Net cash used in operations	(21,514)	(27,182)
Income tax paid	(150)	(24)
Net cash used in operating activities	(21,664)	(27,206)
Investing activities		
Acquisition of subsidiaries	(293,843)	(57,161)
Purchase of property, plant and equipment	(2,894)	(1,872)
Increase in pledged bank deposits	(78)	(600)
Interest received from deposit for acquisition of an investment property	357	–
Proceeds from disposal of property, plant and equipment	364	–
Interest received	808	471
Decrease in deposits for acquisition of land	10,113	67,282
Proceeds from disposal of investment properties	11,675	–
Purchase of investment properties	–	(70,605)
Decrease in deposit received for disposal of subsidiaries	–	(60,000)
Proceeds from disposal of subsidiaries	–	54,842
Net cash used in investing activities	(273,498)	(67,643)

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	2008 *HK$'000*	2007 *HK$'000* (restated)
Financing activities		
Proceeds from issue of convertible notes	**301,646**	95,074
Repayment of obligations under finance leases	**(45)**	–
Repayment of borrowings	**(1,152)**	(715)
Interest paid	**(1,416)**	(9,137)
Increase in amounts due to shareholders	**–**	141,219
Decrease in amount due to a related company	**–**	(62)
Repayment of convertible notes	**–**	(89,000)
Net cash from financing activities	**299,033**	137,379
Net increase in cash and cash equivalents	**3,871**	42,530
Effect of changes in exchange rates	**3,558**	(80)
Cash and cash equivalents at beginning of the year	**43,939**	1,489
Cash and cash equivalents at end of the year, represented by bank balances and cash	**51,368**	43,939

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company are disclosed in the introduction to the annual report.

The functional currency of the Company is Renminbi. The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers as the Company is a listed company in Hong Kong.

The principal activity of the Company is investment holdings. Its subsidiaries are principally engaged in supply of heat and property investments. The principal activities of its subsidiaries are set out in note 44.

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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning at 1 July 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS2: Group and Treasury Share Transactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior year adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 12	Service Concession Arranagements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
HK(IFRIC)-Int 15	Agreements for the Contruction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]

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

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

3. PRIOR YEAR ADJUSTMENTS

In previous year, the Group applied purchase method of accounting on the acquisitions of Easy Rider Group Limited ("Easy Rider"), External Fame Limited ("External Fame") and Omnigold Resources Limited ("Omnigold"). The directors of the Company have reconsidered the acquisitions and concluded that the acquisitions of Easy Rider, External Fame and Omnigold did not meet the definition of a business combination in accordance with HKFRS 3. External Fame and Omnigold were engaged in properties investment and the acquisitions should have been accounted for as acquisition of assets through acquisition of subsidiaries. Easy Rider was an investment holding company whose only asset was its interest in a jointly controlled entity which also was not a business. Hence, prior period adjustments have been made. The adjustments give rise to an increase in share of loss of a jointly controlled entity of HK$10,745,000, a decrease in discount on acquisition of HK$4,494,000, an increase in fair value of investment properties of HK$5,207,000 and an increase of income tax expense of HK$1,302,000 in respect of the year ended 30 June 2007.

In addition, there were other prior year adjustments in the consolidated financial statements for the year ended 30 June 2007. In the consolidated financial statements for the year ended 30 June 2007, the Group recognised a loan to a jointly controlled entity, namely 上海地下商城有限公司 ("SUCCL"), of approximately HK$40,708,000. There should not have been such loan recognised for the year ended 30 June 2007 as SUCCL does not have any such liability to the Group. The amount of HK$40,708,000 should have been included as part of the cost of the investment in SUCCL rather than a loan to SUCCL. Accordingly, the cost of investment in SUCCL was understated by HK$40,220,000 and accumulated losses were understated by HK$488,000, which represents the discount on acquisition recognised related to the acquisition of SUCCL during the year ended 30 June 2006.

Besides, in the consolidated financial statements for the year ended 30 June 2007, the Group did not retranslate the interest in the jointly controlled entity, of which its functional currency is Renminbi, to the Group's presentation currency, Hong Kong dollar, at the balance sheet date at the rate of exchange prevailing at 30 June 2007 as required by Hong Kong Accounting Standard 21 – The Effects of Changes in Foreign Exchange Rates. Accordingly, the interest in the jointly controlled entity at 30 June 2007 was understated by HK$10,392,000 and the translation reserve is understated by the same amount.

The prior year adjustments above have been made retrospectively by restating the comparative information for the year.

3. PRIOR YEAR ADJUSTMENTS (Continued)

The financial impact of the adjustments described above on the result for the prior period (analysed according to their function) are as follows:

	2007 *HK$'000*
Decrease in discount on acquisition	(4,494)
Increase in change of fair value of investment properties	5,207
Increase in share of loss of a jointly controlled entity	(10,745)
Increase in income tax expenses	(1,302)
Increase in loss for the year	(11,334)

The cumulative effects of the prior year adjustments described above as at 30 June 2007 are summarised below:

	30 June 2007 *HK$'000* (originally stated)	Prior year adjustments *HK$'000*	30 June 2007 and 1 July 2007 *HK$'000* (as restated)
Balance sheet items			
Goodwill	10,057	(10,057)	–
Interest in a jointly controlled entity	124,370	39,648	164,018
Loan to a jointly controlled entity	40,708	(40,708)	–
Deferred tax liabilities	(11,693)	9,946	(1,747)
Total effect on assets and liabilities	163,442	(1,171)	162,271
Accumulated losses	327,683	11,822	339,505
Translation reserve	(3,336)	(10,651)	(13,987)
Total effects on equity	324,347	1,171	325,518

3. PRIOR YEAR ADJUSTMENTS (Continued)

The cumulative effect of the prior year adjustments described above as at 30 June 2006 are summerised below:

	30 June 2006	Prior year adjustments	30 June 2006
	HK$'000	*HK$'000*	*HK$'000*
	(originally stated)		(as restated)
Accumulated losses and total effects effects on equity	327,776	488	328,264

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("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 Stock Exchange and by Hong Kong Companies Ordinance.

Basics of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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 and income and expenses are eliminated on consolidation.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination

The acquisition of business is accounted for using the purchase method. The cost of 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 acquire, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

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 identified assets, liabilities and contingent liabilities exceeds the costs of the business combination, the excess is recognised immediately in profit or loss.

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

Goodwill

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

Capitalised goodwill arising on acquisition of a business is presented separately in the consolidated balance sheets as an intangible asset.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or a group 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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests 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.

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 balance sheet 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 and 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 assessed for impairment as part of the investment.

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

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

Joint ventures

Jointly controlled entities

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 balance sheet at cost as adjusted for post-acquisition changes in the Group's share of 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 assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identified 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Property rental income under operating lease is recognised on a straight line basis over the terms of the relevant leases.

Revenue from heat supply is recognised when heat is provided.

Licence fee income in relation to connection of heat supply facilities for exclusive right of exploring the heat supply market in Tianjin is recognised in accordance with the terms of the contracts.

Interest income from a financial asset 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.

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 less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress represents 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit of loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected to arise from its disposals. 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 the consolidated income statement in the year in which the item is derecognised.

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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which cash they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Rental payable under operating leases are charged to the consolidated income statement on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The functional currency of an entity, once determined, is not changed unless there is change in the underlying transactions, events and conditions relevant to the entity, in which case the translation procedures applicable to the new functional currency is applied prospectively from the date of change. All items are translated into the new functional currency using the exchange rate at the date of the change. The resultant translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in equity are not recognised in profit or loss until the disposal of the operation.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the entity's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements.

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. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowings costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are report separately as "other income".

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit schemes managed by the People's Republic of China (the "PRC") government and the Mandatory Provident Fund Schemes ("MPF") are charged as expenses when employees have rendered service 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 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets 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. Alternatively, intangible assets with indefinitely useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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 and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into one of two categories, loans and receivables and available-for-sale financial assets.

Effective interest method

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

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including dividend receivable from a jointly controlled entity, trade and other receivables, amounts due from related companies, amounts due from associates, pledged bank deposits 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 loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-for-maturity investments.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

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

Impairment of financial assets

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

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

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 equity.

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 an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities generally classified as 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, to the net carrying amount of the financial liability on initial recognition.

Interest expense is recognised on an effective interest basis to the net carrying amount of the liability on initial recognition.

Other financial liabilities

Other financial liabilities including trade and other payables, obligations under finance leases, amounts due to related companies, amounts due to associates, borrowings and loan from a related company are subsequently measured at amortised cost, using the effective interest method.

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 convertible note reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Convertible notes (Continued)

In subsequent periods, the liability component of the convertible loan 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 note reserve until the embedded option is exercised (in which case the balance stated in the convertible note reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible note reserve will be released to accumulated losses). No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that related 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 liability portion and amortised over the period of the convertible loan 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 receivables and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Share-based payment transactions

Share options granted to employees

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

At each balance sheet date, the Group revises its estimate 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 options reserve.

At the time when the share options are exercised, the amount of previously recognised in share options 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 options reserve will be transferred to accumulated losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets with finite useful lives

At each balance sheet date, 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 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 intangible assets 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of interest in a jointly controlled entity

Determining whether interest in a jointly controlled entity is impaired requires an estimation of future cash flows expected to be generated from the operations of the jointly controlled entity. Where the actual share of future cash flows of the jointly controlled entity are less than the carrying amount of the jointly controlled entity, an impairment loss may arise. The Group applied an annualised growth rate of 5.29% per annum on the rental growth from 2015 to 2022. As at 30 June 2008, the carrying amount of interest in jointly controlled entity is HK$141,200,000 (2007: HK$164,018,000).

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 30 June 2008, the carrying amount of goodwill is HK$29,435,000. Details of the recoverable amount calculation are disclosed in Note 20.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two main operating divisions – property investment and supply of heat. These divisions are the basis on which the Group reports its primary segment information. Revenue from property investment segment comprises rental income from investment properties.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segmental information about these businesses is presented below:

2008

	Property investment HK$'000	Supply of heat HK$'000	Consolidated HK$'000
Segment revenue			
External sales	4,157	–	4,157
Result			
Segment result	(3,629)	–	(3,629)
Other income			35
Unallocated expenses			(39,404)
Share of result of a jointly controlled entity			(35,531)
Interest income			1,165
Finance costs			(1,968)
Loss before taxation			(79,332)
Income tax expense			(14)
Loss for the year			(79,346)

2008

Consolidated balance sheet

	Property investment HK$'000	Supply of heat HK$'000	Consolidated HK$'000
Assets			
Segment assets	112,570	1,537,149	1,649,719
Investments in associates			980
Interest in a jointly controlled entity			141,200
Unallocated corporate assets			107,441
Consolidated total assets			1,899,340
Liabilities			
Segment liabilities	15,563	212,563	228,126
Unallocated corporate liabilities			493,668
Consolidated total liabilities			721,794

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2008

Other information

	Property investment HK$'000	Supply of heat HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions				
Acquisition of subsidiaries	–	483,358	–	483,358
Other additions	2,405	–	489	2,894
Depreciation of property, plant and equipment	717	–	323	1,040
Net decrease in fair value of investment properties	(1,693)	–	–	(1,693)
Loss on disposal of property, plant and equipment	99	–	–	99

2007 (restated)

	Property investment HK$'000	Supply of heat HK$'000	Consolidated HK$'000
Segment revenue			
External sales	13,050	–	13,050
Result			
Segment result	12,116	–	12,116
Other Income			3,270
Unallocated expenses			(12,287)
Share of result of a jointly controlled entity			(6,749)
Interest income			3,660
Finance costs			(10,073)
Loss before taxation			(10,063)
Income tax expense			(1,898)
Loss for the year			(11,961)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

2007

Consolidated balance sheet (restated)

	Property investment *HK$'000*	Supply of heat *HK$'000*	Consolidated *HK$'000*
Assets			
Segment assets	123,970	–	123,970
Interests in a jointly controlled entity			164,018
Unallocated corporate assets			87,356
Consolidated total assets			375,344
Liabilities			
Segment liabilities	6,582	–	6,582
Unallocated corporate liabilities			18,508
Consolidated total liabilities			25,090

Other information (restated)

	Property investment *HK$'000*	Supply of heat *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital additions				
Arising from acquisition of subsidiaries	173	–	–	173
Other additions	1,872	–	–	1,872
Depreciation of property, plant and equipment	294	–	–	294
Net increase in fair value of investment properties	7,507	–	–	7,507
Loss on disposal of property, plant and equipment	105	–	–	105

Geographical segments

The following table provides an analysis of the Group's revenue be geographical market and analysis of total assets and capital expenditures by the geographical area in which the assets are located.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

	The PRC other than Hong Kong and Macau		Others		Consolidated	
	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	3,662	12,665	495	385	4,157	13,050
Segment assets	1,616,148	77,508	33,571	46,462	1,649,719	123,970
Capital expenditures	485,261	173	991	1,872	486,252	2,045

7. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Interest income on bank deposits	808	471
Other interest income	357	3,189
Total Interest Income	1,165	3,660
Foreign exchange gain	–	2,910
Others	35	360
	1,200	6,930

8. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on Bank borrowings wholly repayable within five years	1,292	5,848
Imputed interest on convertible notes	676	1,911
Interest on other loans	–	2,252
Others	–	62
	1,968	10,073

9. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
		(restated)
The Income Tax expense comprises:		
Current tax		
Hong Kong	**–**	–
Other jurisdictions	**65**	151
	65	151
Deferred taxation *(note 34)*	**(51)**	1,747
	14	1,898

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group does not have any assessable profit arising in Hong Kong.

Taxation arising in other jurisdictions are calculated at the rate prevailing in relevant jurisdiction.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China of Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. The enactment of the New Law does not have any material financial effect on the amount accrued in the consolidated balance sheet in respect of current tax payable.

9. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the loss before taxation per the consolidation income statement as follows:

Year ended 30 June 2008

	The PRC, other than Hong Kong and Macau *HK$'000*	Others *HK$'000*	Total *HK$'000*
Loss before taxation	(38,570)	(40,762)	(79,332)
Statutory tax rate	25%	17.5%	
Tax at statutory tax rate	(9,642)	(7,133)	(16,775)
Tax effect of expenses not deductible for tax purpose	423	3,448	3,871
Tax effect of income not taxable for tax purpose	–	(476)	(476)
Tax effect of tax loss not recognised	880	4,178	5,058
Tax effect to share of result of a controlled joint entity	8,882	–	8,882
Tax effect of deductible temporary difference not recognised	(345)	(120)	(465)
Others	(64)	(17)	(81)
Income tax expense (credit) for the year	134	(120)	14

Year ended 30 June 2007 (restated)

	The PRC, other than Hong Kong and Macau *HK$'000*	Others *HK$'000*	Total *HK$'000*
Profit (loss) before taxation	18,484	(28,547)	(10,063)
Statutory tax rate	30.5%	17.5%	
Tax at statutory tax rate	5,638	(4,996)	642
Tax effect of expenses not deductible for tax purpose	689	38	727
Tax effect of income not taxable for tax purpose	(9,348)	(140)	(9,488)
Tax effect of tax loss not recognised	1,114	5,098	6,212
Tax effect of share of result of a jointly controlled entity	2,058	–	2,058
Tax effect of deductible temporary differences not recognised	1,747	–	1,747
Income tax expense for the year	1,898	–	1,898

10. LOSS FOR THE YEAR

	2008 *HK$'000*	2007 *HK$'000*
Loss for the year has been arrived at after charging:		
Auditors' remuneration	**1,898**	583
Depreciation of property, plant and equipment (included in administrative expenses)	**1,040**	294
Loss on disposal of property, plant and equipment	**99**	105
Staff costs, including directors' emoluments *(note 11)*	**25,595**	8,022
Allowance for bad debts	**1**	6,070
Foreign exchange loss (gain)	**3,727**	(2,910)
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**1,760**	1,517
And after crediting:		
Gross rental income	**4,157**	13,050
Less: outgoings	**(121)**	(7)
Net rental income	**4,036**	13,043

11. DIRECTORS' EMOLUMENTS

Director's emoluments

The emoluments paid or payable on each of the 8 (2007: 8) directors were as follows:

2008

	Hu Yi Shi HK$'000	Yip Kar Hang, Raymond HK$'000	Li Zongyang, John HK$'0000	Lam Cheung Shing, Richard HK$'000	Hu Jin Xing HK$'000	Tam Sun Wing HK$'000	Ko Ming Tung, Edward HK$'000	Ng Ge Bun HK$'000	Total 2008 HK$'000
Fees	650	66	597	200	600	200	200	200	2,713
Other emoluments									
Salaries allowances and other benefits	2,427	669	1,501	1,300	–	–	–	–	5,897
Retirement scheme contribution	8	12	6	65	–	–	–	–	91
Share-based payment	1,010	3,952	–	3,637	1,010	–	–	–	9,609
Total emoluments	4,095	4,699	2,104	5,202	1,610	200	200	200	18,310

2007

	Hu Yi Shi HK$'000	Li Zongyang, John HK$'000	Zhang Yang HK$'0000	Lam Cheung Shing, Richard HK$'000	Hu Jin Xing HK$'000	Tam Sun Wing HK$'000	Ko Ming Tung, Edward HK$'000	Ng Ge Bun HK$'000	Total 2007 HK$'000
Fees	411	450	158	200	45	200	200	200	1,864
Other emoluments									
Salaries allowances and other benefits	–	200	3,247	1,013	–	–	–	–	4,460
Retirement scheme contribution	–	–	91	44	–	–	–	–	135
Share-based payment	–	–	–	–	–	–	–	–	–
Total emoluments	411	650	3,496	1,257	45	200	200	200	6,459

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, 5 (2007: three) were directors of the Company whose emoluments are included in note 11 above. Nil (2007: two) were as follows:

	2008 *HK$'000*	2007 *HK$'000*
Salaries and other benefits	–	762
Retirement benefit scheme contributions	–	35
Total emoluments	–	797

Each of their emoluments was within HK$1,000,000 for 2007.

13. DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 30 June 2008 (2007: Nil).

14. LOSS PER SHARE

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 *HK$'000*	2007 *HK$'000* (restated)
Loss attributable to equity holders of the Company for the purpose of basic loss per share	(79,346)	(11,961)
	Number of shares *'000*	Number of shares *'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	5,723,235	4,554,567

No diluted loss per share has been presented because the exercise of the option would result in a decrease in losses per share.

The following table summarises the impact on basic losses per share as a result of:

	Impact on basic losses per share 2007 *HK cents*
Reported figures before adjustment	0.01
Adjustments arising from prior year adjustments *(note 3)*	0.25
Restated	0.26

15. PROPERTY, PLANT AND EQUIPMENT

	Heat supplying facilities	Leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Building	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 July 2006	–	575	560	1,121	–	–	2,256
Exchange realignment	–	–	3	8	–	–	11
Additions	–	959	513	400	–	–	1,872
Acquisition of subsidiaries	–	–	15	158	–	–	173
Disposals	–	(20)	(323)	–	–	–	(343)
Eliminated on disposal of subsidiaries	–	–	(194)	(1,121)	–	–	(1,315)
At 30 June 2007 and 1 July 2007	–	1,514	574	566	–	–	2,654
Exchange realignment	–	–	25	100	–	–	125
Additions	–	6	844	2,044	–	–	2,894
Acquisition of subsidiaries	198,120	–	1,288	2,911	271,772	9,267	483,358
Disposals	–	–	(30)	(534)	–	–	(564)
At 30 June 2008	**198,120**	**1,520**	**2,701**	**5,087**	**271,772**	**9,267**	**488,467**
DEPRECIATION							
At 1 July 2006	–	(575)	(373)	(647)	–	–	(1,595)
Charge for the year	–	(43)	(85)	(166)	–	–	(294)
Eliminated on disposals	–	4	234	–	–	–	238
Eliminated on disposal of subsidiaries	–	–	115	782	–	–	897
At 30 June 2007 and 1 July 2007	–	(614)	(109)	(31)	–	–	(754)
Exchange realignment	–	–	(4)	(14)	–	–	(18)
Charge for the year	–	(472)	(202)	(366)	–	–	(1,040)
Eliminated on disposals	–	–	5	96	–	–	101
At 30 June 2008	**–**	**(1,086)**	**(310)**	**(315)**	**–**	**–**	**(1,711)**
CARRYING VALUES							
At 30 June 2008	**198,120**	**434**	**2,391**	**4,772**	**271,772**	**9,267**	**486,756**
At 30 June 2007	–	900	465	535	–	–	1,900

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Heat supplying facilities	Over the shorter of 18 years or remaining operating period of the group entity
Leasehold improvement	Over the shorter of lease terms or 5 years
Furniture, fixtures and office equipment	15 – 20%
Motor vehicles	18 – 20%
Building	5%

The net book value of furniture, fixtures and office equipment of HK$2,391,000 includes an amount of HK$184,000 (2007: HK$217,000) in respect of assets held under finance leases.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at 30 June 2008 comprise of leasehold land outside Hong Kong under medium-term lease of HK$42,177,000 (2007: nil).

	2008 *HK$'000*	2007 *HK$'000*
Analysed for reporting purposes as:		
Current assets	**2,392**	–
Non-current assets	**39,785**	–

17. INVESTMENT PROPERTIES

	HK$'000 (restated)
FAIR VALUE	
At 1 July 2006	220,243
Exchange realignment	4,568
Additions	146,600
Acquired on acquisitions of subsidiaries	89,720
Net increase in fair value recognised in consolidated income statement	7,507
Disposals of subsidiaries	(357,842)
At 1 July 2007	110,796
Exchange realignment	9,997
Net decrease in fair value recognised in consolidated income statement	(1,693)
Disposals	(11,000)
At 30 June 2008	**108,100**

The fair value of the Group's investment properties at 30 June 2008 has been arrived at on the basis of a valuation carried out on that date by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), independent qualified professional valuers not connected with the Group. Sallmanns is a member of The Royal Institution of Chartered Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. All the investment properties are located outside Hong Kong under medium-term leases.

18. GOODWILL

	2008 HK$'000	2007 HK$'000
COST AND CARRYING AMOUNT		
At 1 July	–	–
Acquisition of subsidiaries	29,435	10,057
	29,435	10,057
Prior year adjustments *(note 3)*	–	(10,057)
At 30 June	29,435	–

Particulars regarding impairment testing on goodwill are disclosed in note 20.

19. OTHER INTANGIBLE ASSETS

The intangible assets were purchased as part of a business combination on 30 June 2008 as set out in note 38. The intangible assets include a contractual right to receive license fee income in relation to connection of heat supply market facilities in Tianjin. In addition, intangible assets include operating rights of heat supply for certain locations in Tianjin, and existing construction contracts for connection to the Group's heat transmission facilities. The aggregate fair value of the intangible assets as at the date of the business combination amounts to approximately HK$387,465,000.

	Exclusive license fee contract *HK$'000*	**Existing construction contracts** *HK$'000*	**Operating rights** *HK$'000*	**Total** *HK$'000*
COST				
At 1 July 2007	–	–	–	–
Acquisition of subsidiaries	263,754	5,519	118,192	387,465
At 30 June 2008	**263,754**	**5,519**	**118,192**	**387,465**
CARRYING VALUES				
At 30 June 2008	**263,754**	**5,519**	**118,192**	**387,465**

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis on the following rate per annum.

Exclusive license fee contract	5.56%
Construction contracts	25%–100%
Operating rights	Over the shorter of 18 years or remaining operating period of the group entity

20. IMPAIRMENT ON GOODWILL

The carrying amount of goodwill of HK$29,435,000 as at 30 June 2008 is allocated to the heat supply cash generating unit ("CGU").

The management of the Group determined that there is no impairment of its goodwill at 30 June 2008.

The basis of the recoverable amount of the CGU and its major underlying assumption are summarised below:

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by directors of the Company over the operating periods ranging from 14 to 19 years at a discount rate of 16.08%. A forecast of over five-year period is used because the connection fee income and exclusive license fee income generated by the CGU are not expected to grow at a steady rate beyond the five-year period and will start to decline in the later stage during the operating periods. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted heat supply income, connection fee income and exclusive license fee income. These estimations are based on the units's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to materially exceed the aggregate recoverable amount of the CGU.

21. INVESTMENTS IN ASSOCIATES

	2008 HK$'000	2007 HK$'000
Cost of unlisted investment in associates	980	–
Share of post-acquisition reserve	–	–
	980	–

Details of the Group's principal associates as at 30 June 2008 are as follows:

Name	Legal form of business	Place of incorporation or registration/ operation	Percentage of registered capital held by the Group Indirectly	Registered capital	Principal activities
天津市梅江供熱運行管理有限公司 (Tianjin Meijing Heat Supply Operating Management Company Limited)	Limited enterprise	The PRC	40%	RMB2,000,000	Sales of heat materials
天津津濱供熱有限公司 (Tianjin Jinbin Heat Supply Company Limited)	Limited enterprise	The PRC	40%	RMB2,000,000	Provision of pipeline construction

The associates were acquired through business combination which completed on 30 June 2008. Details of the business combination are included in note 38.

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

Financial position

	2008 HK$'000	2007 HK$'000
Total assets	216,191	–
Total liabilities	(213,741)	–
Net assets	2,450	–
Group's share of net assets of associate	980	–

21. INVESTMENTS IN ASSOCIATES (Continued)

Results for the year

	2008 HK$'000	2007 HK$'000
Revenue	–	–
Profit for the year	–	–
Profit for the year attributable to the Group	–	–

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008 HK$'000	2007 HK$'000 (restated)
Cost of unlisted investment in a jointly controlled entity	157,746	161,536
Share of post-acquisition losses and reserve, net of dividend	(16,546)	2,482
	141,200	164,018
Dividend receivable from a jointly controlled entity	50,935	42,817

At 30 June 2008 and 2007, the Group had interest in the following jointly controlled entity:

Name of entity	Legal form of incorporation or registration/ operation	Place of business	Proportion of registered capital indirectly held by the Company 2008 & 2007	Registered capital	Principal activities
上海地下商城有限公司 ("SUCCL")	Sino-foreign corporate joint venture	The PRC	50%	USD9,000,000	Operation and management of shopping mall in the PRC

Included in the share of result of a jointly controlled entity for the year ended 30 June 2008 is an impairment loss of HK$21,547,000 in relation to SUCCL. The impairment loss recognised is mainly due to the downturn of property market in the PRC during the period.

The basis of the recoverable amount of the interest in the jointly controlled entity and its major underlying assumption are summarised below:

22. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

The recoverable amount of the interest in SUCCL has been determined based on a value in use calculation over the operating period of SUCCL. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period at a discount rate of 8.30%. The cash flows beyond the five-year period are extrapolated using a 5.29% growth rate. This growth rate is based on the average historical growth of the consumer price index in the PRC. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted rental income and gross margin, such estimation is based on SUCCL's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of interest in SUCCL to materially exceed the aggregate recoverable amount of investment in SUCCL.

The summarised financial information of the Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below.

	2008 ***HK$'000***	2007 *HK$'000* (restated)
Current assets	**41,274**	40,327
Non-current assets	**167,188**	186,756
Current liabilities	**(36,475)**	(35,621)
Non-current liabilities	**(30,787)**	(27,444)
Revenue	**24,620**	26,868
Expense	**60,151**	33,617

Note: According to the joint venture agreement signed between the Group and the remaining 50% equity shareholder of SUCCL (the "PRC shareholder"), from the date of acquisition of SUCCL by the Group to 31 December 2007, the PRC Shareholder is entitled to an annual guarantee return of RMB3,000,000 and the remaining profits are solely attributable to the Group. Profit sharing among shareholders will be based on equity shareholding thereafter.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise:

	2008 HK$'000	2007 HK$'000
Unlisted equity investment in Hong Kong, at cost	650	650
Less: impairment loss recognised	(650)	(650)
	–	–
Unlisted equity securities in the PRC	4,461	–
Total	4,461	–

The unlisted investment at 30 June 2008 represents 16% interest in 天津市津熱物流有限公司, an unlisted equity securities, in the PRC. It is measured at cost less impairment at the balance sheet date as the directors of the Company are of the opinion that its fair value cannot be measured reliably.

24. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	188	–
Consumables	210	–
	398	–

All inventories are stated at cost.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2008 HK$'000	2007 HK$'000
Trade receivables	63,835	253
Other receivables	11,829	89
Prepayments	459	98
Deposits	967	10,834
	77,090	11,274

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

The Group allows an average credit period of 120 days to its trade customers. The aged analysis of trade receivables net of allowance for doubtful debts is stated as follows:

	2008 *HK$'000*	2007 *HK$'000*
0 – 30 days	35,470	87
31 – 90 days	24	88
Over 90 days	28,341	78
	63,835	253

Trade receivables at the balance sheet dates mainly comprise license fee receivables, amounts receivable from sales of heat supply and rental receivables. No interest is charged on the trade receivables.

Included in trade receivables are debtors with carrying amounts of approximately HK$28,341,000 (2007: nil) which are past due at the balance sheet dates for which the Group had not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances. The age of these receivables at 30 June 2008 is approximately 180 days.

Included in other receivables are advance to independent third parties with carrying amounts of HK$10,393,000. Amounts are unsecured, non-interest bearing and repayable on demand. The management believe that no impairment allowance is necessary in respect of the other receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The following is the movement in the allowance for doubtful debts:

	2008 *HK$'000*	2007 *HK$'000*
Balance at beginning of the year	–	6,070
Amount written off as uncollectible	–	(6,070)
Balance at end of year	–	–

26. AMOUNTS DUE FROM (TO) ASSOCIATES

The amounts are not trade in nature, and are unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts are not trade in nature, and are unsecured, interest-free and repayable on demand. The related companies are minority shareholders of the Group's subsidiaries who have significant influence over the subsidiary and its subsidiaries.

28. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances are interest bearing at respective saving deposits rate in Hong Kong and the PRC, and the effective interest rate of the Group's bank balances ranged from 0.01% to 2.50% (2007: 0.72% to 2.75%) per annum.

At 30 June 2008, bank balances amounting to approximately HK$678,000 (2007: HK$600,000) were pledged to banks for securing bank facilities granted to the Group. The pledged bank balances carry interest rate ranged from 2.61% to 3.87% (2007: 2.25% to 2.61%) per annum.

29. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2008 *HK$'000*	2007 *HK$'000*
Trade payables	44,773	–
Other payables	16,991	2,832
Accured charges	1,685	2,845
	63,449	5,677

The following is an aged analysis by invoice date of trade payables at the balance sheet date:

	2008 *HK$'000*	2007 *HK$'000*
0 – 30 days	324	–
31 – 90 days	3,090	–
91 – 180 days	27,712	–
Over 180 days	13,647	–
	44,773	–

The average credit period on purchase is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases				
Within one year	**45**	45	**45**	45
In more than one year but not more than two years	**45**	45	**42**	42
In more than two years but not more than five years	**82**	127	**68**	102
	172	217	**155**	189
Less: future finance charges	**(17)**	(28)	**–**	–
Present value of lease obligations	**155**	189	**155**	189
Less: Amount due for settlement with 12 months (shown under current liabilities)			**45**	45
Amount due for settlement after 12 months			**110**	144

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The effective interest rate of the above finance lease is 7.75% (2007: 7.75%).

31. BORROWINGS

	2008 *HK$'000*	2007 *HK$'000*
Bank borrowings	28,173	16,632
Other borrowings *(Note)*	25,817	–
	53,990	16,632
Secured	28,173	16,632
Unsecured	25,817	–
	53,990	16,632

	2008 *HK$'000*	2007 *HK$'000*
The bank and other borrowings are repayable as follows:		
On demand or within one year	20,581	1,246
More than one year, but not exceeding two years	9,156	1,340
More than two years, but not exceeding five years	16,020	4,666
More than five years	8,233	9,380
	53,990	16,632
Less: Amount due within one year shown under current liabilities	20,581	1,246
	33,409	15,386

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2008	2007
Effective interest rates:		
Fixed-rate borrowings	7.20% to 7.83%	6.84% to 7.83%

Note: The amount represents loan advanced from an independent third party. The amount is unsecured, non-interest bearing and is will be repaid in full by 2012. The effective interest rate of the other borrowings is 8.36% (2007: nil).

32. LOAN FROM A RELATED COMPANY

The amount is advanced from a minority shareholder of a group entity, which is unsecured and bears interest at 8.00% per annum.

The loan is repayable as follows:

	2008 *HK$'000*	2007 *HK$'000*
Within one year	126,194	–
More than one year, but not exceeding two years	218,092	–
	344,286	–
Less: Amount due within one year shown under current liability	(126,194)	–
	218,092	–

33. CONVERTIBLE NOTES

During the year ended 30 June 2008, the Company issued seven convertible notes to various independent third parties with aggregate principal amount of HK$310,160,000. The notes entitle the holders to convert them into ordinary shares of the Company at the conversion price stated below at any time during the relevant conversion period, subject to anti-dilutive adjustments. If the notes are not converted, the outstanding principal amounts will be payable on redemption. A fixed exchange rate between Hong Kong dollar and Renminbi would be applied to the Hong Kong dollar principal amounts and Hong Kong dollar conversion prices in the event of redemption or conversion. Interest of 3.5% will be paid annually in arrears up until the settlement date.

Details of the convertible notes issued during the year are as follows:

Date of issue	Principal amount	Date of settlement	Conversion price	Interest rate	Effective interest rate
21 December 2007	HK$29,380,000	20 December 2009	HK$0.130 per share	3.5%	12.00%
4 March 2008	HK$39,000,000	3 April 2010	HK$0.130 per share	3.5%	12.00%
19 March 2008	HK$39,000,000	19 March 2010	HK$0.130 per share	3.5%	12.00%
21 April 2008	HK$32,500,000	21 April 2010	HK$0.130 per share	3.5%	12.00%
13 June 2008	HK$51,600,000	13 June 2010	HK$0.258 per share	3.5%	12.00%
18 June 2008	HK$51,600,000	18 June 2010	HK$0.258 per share	3.5%	12.00%
25 June 2008	HK$67,080,000	25 June 2010	HK$0.258 per share	3.5%	12.00%
	HK$310,160,000				

The convertible notes contain two components, liability and equity elements. The equity element is presented in equity heading convertible notes reserve. The total principal amounts of the convertible notes were fully converted into ordinary shares of the Company during the year ended 30 June 2008.

33. CONVERTIBLE NOTES (Continued)

The movement of the liability component of the convertible notes for the year is set out below:

	2008 *HK$'000*	2007 *HK$'000*
At beginning of the year	–	82,356
Initial recognition of convertible notes	258,313	92,100
Interest charge *(Note 8)*	676	1,911
Interest paid	(125)	(1,394)
Conversion of convertible notes	(258,864)	(92,423)
Repayment of convertible notes	–	(82,550)
At end of the year	–	–

During the year ended 30 June 2007, the Company issued a convertible note to Joy Right Investments Limited, an independent third party, with a principal amount of HK$95,074,000 (the "Joy Right Note"). The Joy Right Note bears interest at the rate of 3.5% per annum, payable annually in arrears. The Joy Right Note carried the right to convert the principal amount into ordinary shares of HK$0.1 each of the Company at a conversion price of HK$0.106 per share. The total principal amount of the Joy Right Note was converted into ordinary shares of the Company during the year ended 30 June 2007.

34. DEFERRED TAXATION

The deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are as follows:

	Revaluation of investment properties *HK$'000*	Accelerated tax depreciation *HK$'000*	Fair value adjustment on intangible assets *HK$'000*	Fair value adjustment on property, plant and equipment *HK$'000*	Fair value adjustment on prepaid lease payments *HK$'000*	Fair value adjustment on long term borrowings *HK$'000*	Total *HK$'000*
At 1 July 2006	–	–	–	–	–	–	–
Charge to consolidated income statement for the year (restated)	1,747	–	–	–	–	–	1,747
At 30 June 2007 and 1 July 2007 (restated)	1,747	–	–	–	–	–	1,747
Exchange realignment	175	–	–	–	–	–	175
Credit to consolidated income statement for the year	(51)	–	–	–	–	–	(51)
Acquisition of subsidiaries	–	5,000	96,866	(41,990)	10,544	1,052	71,472
At 30 June 2008	**1,871**	**5,000**	**96,866**	**(41,990)**	**10,544**	**1,052**	**73,343**

At the balance sheet date, the Group had unused tax losses of approximately HK$71,372,000 (2007: HK$43,979,000) subject to the confirmation from Hong Kong Inland Revenue Department, 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. The unrecognised tax losses may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of shares		Share capital	
	2008	2007	**2008**	2007
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised				
At beginning of year	**7,600,000**	7,600,000	**760,000**	760,000
Increase of authorised share capital	**12,400,000**	–	**1,240,000**	–
At end of year	**20,000,000**	7,600,000	**2,000,000**	760,000
Issued and fully paid				
At beginning of year	**5,381,613**	4,484,683	**538,161**	448,468
Conversion of Convertible Notes *(notes a & b)*	**1,736,000**	896,930	**173,600**	89,693
At end of year	**7,117,613**	5,381,613	**711,761**	538,161

Notes:

(a) Convertible notes of principal amount of HK$95,074,000 has been converted into 896,930,000 ordinary share of HK$0.1 each of the Company at a conversion price of HK$0.106.

(b) Convertible notes of principal amount of HK$310,160,000 were converted into 1,736,000,000 ordinary share of HK$0.1 each of the Company at a conversion price of HK$0.13 (1,076,000,000 ordinary shares) and HK$0.258 (660,000,000 ordinary shares) respectively.

36. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years. The capital structure of the Group consists of cash and cash equivalents, borrowings, loan from a related company and equity attributable to equity holders of the Group, comprising issued share capital and accumulated losses.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS

37a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables	75,664	342
Amounts due from associates	115,471	–
Amounts due from related companies	402,826	–
Dividend receivable from a jointly controlled entity	50,935	42,817
Pledged bank deposits	678	600
Bank balances and cash	51,368	43,939
	696,942	87,698
Available-for-sale financial assets	4,461	–

	2008 HK$'000	2007 HK$'000
Financial liabilities		
Other financial liabilities at amortized cost		
Trade and other payables	61,764	2,832
Amounts due to associates	15,325	–
Amounts due to related companies	45,151	717
Loan from a related company	344,286	–
Borrowings	53,990	16,632
Obligations under finance leases	155	189
	520,671	20,370

The Group's major financial instruments include trade and other receivables, dividend receivable from a jointly controlled entity, amounts due from (to) associates, amounts due from (to) related companies, pledged bank deposits, bank balances and cash, trade and other payables, borrowings, loan from a related company and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (currency risk), credit risk and liquidity risk and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37. FINANCIAL INSTRUMENTS (Continued)

37b. Financial risk management and policies

Market risk

Foreign currency risk

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

	Liabilities		Assets	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars ("HKD")	**4,915**	–	**34,774**	–

Monetary assets denominated in foreign currencies mainly represented bank balances and cash, while monetary liabilities denominated in foreign currencies mainly represented other payables.

Sensitivity analysis

The Group is mainly exposed to the effect of fluctuation in HKD.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 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 outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes current account with foreign operations within the Group where denomination of the balances is in a currency other than the currency of the lender or the borrower. A positive number below indicates a decrease in loss for the year where the functional currencies of the relevant subsidiaries strengthens 5% against relevant currency. For a 5% weakening of the functional currencies of the relevant group entities against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	2008	2007
	HK$'000	*HK$'000*
Loss for the year		
HKD	**(1,493)**	–(i)

(i) This is mainly attributable to the exposure outstanding on HKD bank balances at year end.

The Group's sensitivity to foreign currency has increased during the current year mainly due to the increase in HKD bank balances.

Credit risk management

As at 30 June 2008, 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 balance sheet.

37. FINANCIAL INSTRUMENTS (Continued)

37b. Financial risk management and policies (Continued)

Credit risk management (Continued)

In order to minimise the credit risk, the management 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 each balance sheet date 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.

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

The credit risk on dividend receivable from a jointly controlled entity, amounts due from related companies and associates is limited as the directors of the Company consider the balances are fully recoverable.

Other than concentration of credit risk on liquid funds, dividend receivable from a jointly controlled entity and amounts due from related companies and associates, the Group has concentration of credit risk as 99% (2007: nil) of total trade receivables was due from 天津城西供熱有限公司, the counterparty related to the exclusive license fee contract.

Liquidity risk management

In the management of the 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 relies on borrowings as a significant source of liquidity.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Effective interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1-2 years	More than 2 years	Total undiscounted cash flows	Total carrying amount at 30.6.2008
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008								
Non-derivative financial liabilities								
Trade and other payables	N/A	–	61,764	–	–	–	61,764	61,764
Amounts due to related companies	N/A	45,151	–	–	–	–	45,151	45,151
Amounts due to associates	N/A	15,325	–	–	–	–	15,325	15,325
Loan from a related Company	8.42%	–	96,983	15,610	261,855	–	374,448	344,286
Borrowings	7.20% – 8.36%	–	2,345	19,194	10,248	30,206	61,993	53,990
Obligation under finance lease	7.75%	–	11	34	45	82	172	155
		60,476	161,103	34,838	272,148	30,288	558,853	520,671

37. FINANCIAL INSTRUMENTS (Continued)

37b. Financial risk management and policies (Continued)

Liquidity risk management (Continued)

Liquidity tables (Continued)

	Effective interest rate %	Repayable on demand *HK$'000*	Less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1-2 years *HK$'000*	More than 2 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount at 30.6.2007 *HK$'000*
2007								
Non-derivative financial liabilities								
Trade and other payables	N/A	–	2,832	–	–	–	2,832	2,832
Amounts due to related companies	N/A	717	–	–	–	–	717	717
Borrowings	6.84% – 7.83%	–	611	1,833	2,754	20,425	25,623	16,632
Obligation under finance lease	7.75%	–	11	34	45	127	217	189
		717	3,454	1,867	2,799	20,552	29,389	20,370

37c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

38. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries with details below:

A. Business combination

For the year ended 30 June 2008

(i) On 30 June 2008, the Group completed the acquisition of 49% interest in 天津市供熱發展有限公司 ("Tianjin Heating"), a company established in the PRC, and its subsidiaries (collective known as the "Tianjin Heating Group") at a total cash consideration of HK$300,000,000 plus incidental expenses of HK$9,177,000. The principal activities of Tianjin Heating Group are supply of heat and related services.

On the same date, the Group executed an entrustment agreement with a 5% shareholder of the Tianjin Heating Group. According to the terms of the entrustment agreement, the 5% shareholder will grant the Group the right to exercise all powers as shareholders of such 5% equity interests, including all rights and power of the shareholder under the Tianjin Heating Group's articles of association (save for the right to dividend and other payment) ("Entrustment Agreement").

Upon the completion of the acquisition and the execution of the Entrustment Agreement, the Group is entitled to appoint up to six out of nine directors to the board of directors of the Tianjin Heating Group. Accordingly, the Group obtained control over the Tianjin Heating Group and the acquisition has been accounted for by the purchase method of accounting.

38. ACQUISITION OF SUBSIDIARIES (Continued)

A. Business combination (Continued)

For the year ended 30 June 2008 (Continued)

(i) (Continued)

Details of the net assets acquired in respect of the acquisition of Tianjin Heating Group are summarised below:

	Acquiree's carrying amount before combination *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*
NET ASSETS ACQUIRED			
Property, plant and equipment	651,321	(167,963)	483,358
Prepaid lease payments	–	42,177	42,177
Other intangible assets	–	387,465	387,465
Investments in associates	980	–	980
Available-for-sale financial assets	4,461	–	4,461
Inventories	398	–	398
Trade and other receivables and prepayments	76,019	–	76,019
Amounts due from associates	115,471	–	115,471
Amounts due from related companies	402,826	–	402,826
Bank balances and cash	15,334	–	15,334
Trade and other payables and accruals	(51,575)	–	(51,575)
Receipts in advance	(71,784)	–	(71,784)
Amounts due to related companies	(388,765)	–	(388,765)
Amounts due to associates	(15,325)	–	(15,325)
Deferred income	(430,571)	398,154	(32,417)
Tax payable	(21,850)	–	(21,850)
Borrowings	(41,260)	4,207	(37,053)
Deferred tax liabilities	(5,000)	(66,472)	(71,472)
	240,680	597,568	838,248
Minority interests			(558,506)
Goodwill arising on acquisition of subsidiaries			29,435
			309,177
Satisfied by:			
Cash consideration paid			(309,177)
Net cash outflow arising on acquisition:			
Cash consideration paid			(309,177)
Bank balances and cash acquired			15,334
			(293,843)

38. ACQUISITION OF SUBSIDIARIES (Continued)

A. Business combination (Continued)

For the year ended 30 June 2008 (Continued)

The amount of goodwill arising from the acquisition of interests in the Tianjin Heating Group is attributable to the value which adds to the investment by way of the Group's participation in the management of the Tianjin Heating Group. Through such collaboration, reporting and monitoring systems have been strengthened, and a better platform is set for development planning and growth initiatives. The new perspectives of the Group's management also inspire new concepts and ideas for the Tianjin Heating management team that may lead to improvement in business efficiency and better value generation. Furthermore, through the connections of the Group in related businesses, synergies are created with the existing business of the Tianjin Heating Group and values are enhanced accordingly.

The fair value of property, plant and equipments at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by reference to market value of a similar plant and equipment, except for specialised assets, of which the fair values are determined by using income or depreciated replacement cost approach.

The fair value of prepaid lease payments at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by use of market rent approach, assuming that similar piece of land is being leased by the land owner over the license period to the Tianjin Heating Group.

The fair value of intangible assets at 30 June 2008 was based on a valuation by Sallmanns. The fair value was arrived by discounting cash flow approach and multi-period excess earning method.

If the acquisition had been completed on 1 July 2007, total Group's revenue for the year would have been HK$205,544,000. The pro forma information is for illustration purposes only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2007, nor is it intended to be a projection of future results.

B. Acquisition of assets and liabilities through acquisitions of subsidiaries

For the year ended 30 June 2007

(i) The Group acquired a portfolio of investment properties in Beijing, the PRC and its related assets and liabilities at a consideration of approximately HK$38,242,000. The purchase was by way of the acquisition of 100% interest in External Fame and its subsidiaries (collective as the "External Fame Group"). This transaction has been reflected as a purchase of assets and liabilities.

38. ACQUISITION OF SUBSIDIARIES (Continued)

B. Acquisition of assets and liabilities through acquisitions of subsidiaries (Continued)

For the year ended 30 June 2007 (Continued)

Details of net assets acquired in respect of the External Fame Group are summarised below:

	HK$'000 (restated)
NET ASSETS ACQUIRED	
Property, plant and equipment	173
Investment properties	70,094
Amounts due from group companies	16,505
Bank balances and cash	722
Other payables	(1,571)
Amounts due to group companies	(31,175)
Tax payables	(1)
Borrowings	(16,505)
Net assets acquired	38,242
Consideration satisfied by cash	(38,242)
Net cash outflow in respect of the acquisition:	
Cash consideration paid	(38,242)
Bank balance and cash acquired	722
	(37,520)

38. ACQUISITION OF SUBSIDIARIES (Continued)

B. Acquisition of assets and liabilities through acquisitions of subsidiaries (Continued)

For the year ended 30 June 2007 (Continued)

(ii) The Group acquired a portfolio of investment properties in Beijing, the PRC and its related assets and liabilities at a consideration of approximately HK$19,770,000. The purchase was by way of the acquisition of 100% interest in Omnigold. This transaction has been reflected as a purchase of assets and liabilities.

Details of net assets acquired in respect of the Omnigold are summarised below:

	HK$'000 (restated)
NET ASSETS ACQUIRED	
Investment properties	19,626
Trade receivables	28
Bank balances and cash	117
Trade payables	(1)
Net assets acquired	19,770
Consideration satisfied by cash	(19,770)
Net cash outflow in respect of the acquisition:	
Cash consideration paid	(19,770)
Bank balance and cash acquired	117
	(19,653)

39. OPERATING LEASES

As lessee

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$3,425,000 (2007: HK$757,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**2,480**	2,043
In the second to fifth year inclusive	**1,221**	1,392
	3,701	3,435

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are mainly negotiated for an average term of one or two years and rental are fixed over the terms of the leases.

As lessor

Property rental income earned during the year was HK$4,157,000 (2007: HK$13,050,000). The properties are expected to generate rental yields of 3.9% on an ongoing basis.

At the balance sheet date, the Group had contracted with tenants for following future minimum lease payments:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**2,429**	2,944
In the second to fifth year inclusive	**4,914**	1,199
	7,343	4,143

40. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**112,463**	12,781

41. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 17 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 17 April 2012. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which option might be granted to a participant, when aggregated with the total number of shares issued and issuable under the Scheme, must not exceed 25% of the aggregate number of shares for the time issued and issuable under the Scheme from time to time. The offer of a grant of options may be accepted within 28 days from the date of the offer with signed acceptance letter comprising consideration of HK$1.00 received by the Company. The exercisable period of the share options granted is determinable by the directors. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

At 30 June 2008, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Scheme of the Company was 294,600,000 (2007: nil), representing 4.14% (2007: nil) of the shares of the Company in issue at that date.

No share option were granted or exercised under the Scheme during the year ended 30 June 2007.

41. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

The following table discloses details of the share options of the Company held by directors and employees and movements in such holdings during the year.

For the year ended 30 June 2008

Grantees	Date of grant	Outstanding at 1 July 2007 '000	Granted during the year '000	Cancelled during the year '000	Exercised during the year '000	Outstanding at 30 June 2008 '000	Exercisable period	Exercise price per share (subject to anti-dilutive adjustment) HK$	Closing price per share before date on which the options were granted HK$
Directors of the Company	22 August 2007 *(Note a)*	–	43,720	–	–	43,720	22 February 2008 – 21 August 2011	0.205	0.20
	22 August 2007 *(Note b)*	–	87,440	–	–	87,440	22 August 2010 – 21 August 2011	0.205	0.20
	22 April 2008 *(Note c)*	–	56,000	–	–	56,000	22 April 2008 – 16 April 2012	0.165	0.17
		–	187,160	–	–	187,160			
Other employees of the Group	22 August 2007 *(Note b)*	–	87,440	–	–	87,440	22 August 2010 – 21 August 2011	0.205	0.20
	22 April 2008 *(Note c)*	–	20,000	–	–	20,000	22 April 2008 – 16 April 2012	0.165	0.17
		–	107,440	–	–	107,440			
		–	294,600	–	–	294,600			
Exercisable at the end of the year						119,720			
Weighted average exercise price (HK$)		n/a	0.20	n/a	n/a	0.20			

Notes:

(a) The interests are by virtue of 43,720,000 share options accepted by the directors of the Company on 22 August 2007, would entitle the relevant directors and employees to subscribe for shares in the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 February 2008 and ending on 21 August 2011. The estimated fair values of the options granted were HK$3,637,000 of which HK$3,637,000 (2007: nil) was charged to the consolidated income statement during the year.

(b) The interests are by virtue of 87,440,000 share options accepted by the directors of the Company and 87,440,000 accepted by the employees of the Group, would entitle the relevant directors and employees to subscribe for shares of the Company at an exercise price of HK$0.205 per share. The share options are vested and exercisable in whole or in part on 22 August 2010 and ending on 21 August 2011. The estimated fair values of the options granted are HK$14,549,000 of which HK$4,042,000 (2007: nil) was charged to the consolidated income statement during the year.

(c) The interests are by virtue of 56,000,000 share options accepted by a director of the Company and 20,000,000 accepted by the employees of the Group, would entitle the relevant director and employees to subscribe for shares of the Company at an exercise price of HK$0.165 per share. The share options are vested and exercisable in whole or in part on 22 April 2008 and ending on 16 April 2012. The estimated fair values of the options granted are HK$5,363,000 of which HK$5,363,000 was charged to the consolidated income statement during the year.

41. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	22 August 2007	22 August 2007	22 April 2008
Closing share price at the date of offer	HK$0.205	HK$0.205	HK$0.165
Exercise price	HK$0.205	HK$0.205	HK$0.165
Expected volatility	45.74%	45.74%	52.98%
Risk-free rate	4.06%	4.06%	2.06%
Expected dividend yield	0%	0%	0%
Forfeiture rate	0%	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous four years. The suboptimal exercise factor used in the model has been based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$13,042,000 for the year ended 30 June 2008 (2007: nil) in relation to share options granted by the Company.

42. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the Schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately HK$434,000 (2007: HK$324,000) represents contributions payable to these schemes by the Group for the year.

43. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2008 HK$'000	2007 HK$'000
Short-term benefits	5,897	5,679
Post-employment benefits	91	135
Share-based payments	9,609	–
	15,597	5,814

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 30 June 2008 and 2007 are as follows:

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Issued and fully paid up share/registered capital	Percentage of registered capital held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2008 %	2007 %	2008 %	2007 %	2008 %	2007 %	
Ample Land International Limited	Incorporated	Hong Kong/ Macao	HK$1	100	100	–	–	100	100	Property investments
Burlingame (Chinese) Invest Limited	Incorporated	Hong Kong/ The PRC	HK$10,000	–	–	100	100	100	100	Investment holding
北京博雅宏遠物業有限公司 Beijing Boya Property Management Company Limited	Wholly-owned foreign enterprise	The PRC	RMB20,000,000	–	–	100	100	100	100	Property investments
External Fame	Incorporated	British Virgin Islands	US$1	–	–	100	100	100	100	Investment holdings
Omnigold Resources	Incorporated	British Virgin Islands/The PRC	US$1	–	–	100	100	100	100	Property investments

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Details of the Company's principal subsidiaries at 30 June 2008 and 2007 are as follows: (Continued)

Name of subsidiary	Legal form of business	Place of incorporation or registration/ operations	Issued and fully paid up share/registered capital	Percentage of registered capital held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2008 %	2007 %	2008 %	2007 %	2008 %	2007 %	
天津市供熱發展有限公司 Tianjin Heating	Sino-foreign owned enterprise	The PRC	RMB50,000,000	–	–	49	–	67	–	Supply of heat in Tianjin, the PRC
天津市寶勝熱能投資有限公司 Tianjin Boasheng Heating Investment co., Ltd.	Limited enterprise	The PRC	RMB20,000,000	–	–	26.95	–	55	–	Supply of heat in Tianjin, the PRC
天津市梅江供熱有限公司 Tianjin Meijiang Heating Co., Ltd	Limited enterprise	The PRC	RMB66,000,000	–	–	25.97	–	53	–	Supply of heat in Tianjin, the PRC

Note: 天津市供熱發展有限公司 Tianjin Heating is accounted for as a subsidiary of the Group because the Group has the power to control on the board of directors and operation of Tianjin Heating. By execution of the Entrustment Agreement and holding an option to acquire 5% registered capital in the first three year from 30 June 2008. Through an entrustment agreement to grant the right to exercise all powers as the shareholder of 5% equity interests, the Group entitled an extra right to appoint one director to the board of director of Tianjin Heating. Together with the Group's original right to appoint directors to the board of directors of Tianjin Heating as its shareholder holding 49% equity interest, the Group entitled to appoint up to six directors out of nine directors to the board of directors of Tianjin Heating.

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

None of the subsidiaries had any debt capital outstanding at the end of the year or at any time during the year.

Five Year Financial Summary

RESULTS

	Year ended 30 June				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)	(restated)	
Revenue	169,960	122,067	16,537	13,050	**4,157**
Loss before income tax	(7,653)	(54,706)	(5,317)	(10,063)	**(79,332)**
Income tax expense	–	–	(42)	(1,898)	**(14)**
Loss for the year	(7,653)	(54,706)	(5,359)	(11,961)	**(79,346)**

ASSETS AND LIABILITIES

	At 30 June				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)	(restated)	
Assets and liabilities					
Total assets	441,365	479,697	581,667	375,344	**1,899,340**
Total liabilities	183,505	203,053	320,721	25,090	**721,794**
	257,860	276,644	260,946	350,254	**1,117,546**
Equity attributable to equity holders of the Company	257,860	264,284	260,946	350,254	**619,040**
Minority interests	–	12,360	–	–	**558,506**
	257,860	276,644	260,946	350,254	**1,177,546**

Particulars of Investment Properties

Particulars of major investment properties held by the Group as at 30 June 2008 are as follows:

Location	Effective % held	Type	Lease term
Carpark Basement 2 and 3, of 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease
Units 302, 303A 309AB, 320, 322AB, 323AB, 325, 408B, 525, 620, 621, 622 623B, 820, 919B 920, 921A, 922A, 926AB, 1006, 1008B, 1015, 1020, 1021AB, 1022AB, 1023B, 1025, 1026AB, 1027, 1108, 1110A, 1110B, 1120, 1122AB, 1125, 33 Deng Shi Kou Main Street, Dong Cheng District, Beijing	100	Commercial	Medium-term lease