THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in IIN International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

IIN

IIN INTERNATIONAL LIMITED
國訊國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

VERY SUBSTANTIAL ACQUISITION
AND
PLACING OF NEW SHARES

Financial adviser to IIN International Limited

OPTIMA CAPITAL

Optima Capital Limited

A notice convening an extraordinary general meeting of IIN International Limited to be held at K-2 Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 17 March 2008 at 10:30 a.m. is set out on pages 172 to 174 of this circular.

A proxy form for use at the extraordinary general meeting is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" section of the GEM website (www.hkgem.com) for at least 7 days from the date of its posting.

29 February 2008

* *For identification purposes only*

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

"Acquisition"	acquisition of the Sale Shares by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 21 December 2007 for the sale and purchase of the Sale Shares
"Acquisition Completion"	completion of the sale and purchase of the Sale Shares in accordance with the Acquisition Agreement
"Acquisition Conditions"	conditions of the Acquisition Agreement
"AIG"	AIG Global Investment Corporation (Asia) Limited, which is an institutional fund manager. AIG Global Investment Corporation (Asia) Limited is 100% controlled by American International Assurance Company (Bermuda) Limited, which in turn is 100% controlled by American International Reinsurance Company, Limited, which in turn is 100% controlled by AIG Life Holdings (International) LLC, which in turn is 100% controlled by American International Group, Inc.
"AIG Funds"	certain funds, sub funds or accounts that AIG is acting for as investment manager or investment advisor
"Announcement"	the announcement of the Company dated 14 January 2008 in relation to, among other things, the Acquisition, the Placing (AIG) and the Placing (VPL)
"associates"	has the meaning ascribed to it in the GEM Listing Rules
"BEES(BVI)"	Beijing Enterprises Ever Source Limited, a company established under the laws of the BVI with limited liability
"BEES Group"	BEES(BVI) and its subsidiaries
"Board"	the board of Directors
"Business Day"	a day (other than Saturdays and days on which a tropic cyclone warning No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business normal business hours
"BVI"	the British Virgin Islands

"Company"	IIN International Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
"Companies Ordinance"	the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) as amended from time to time
"Completion Date"	within 5 Business Days after the Acquisition Conditions have been fulfilled or waived (as the case may be) or such other date as may be agreed by the Vendor and the Purchaser in writing
"connected persons"	has the meaning ascribed to it under the GEM Listing Rules
"Consideration"	the total sum of HK$704,000,000, payable by the Purchaser to the Vendor in consideration of the Vendor transferring the Sale Shares
"Consideration Shares"	an aggregate of 1,000,000,000 new Shares to be allotted and issued to the Vendor
"Convertible Notes"	the zero coupon convertible notes to be issued in the aggregate principal amount of HK$204,000,000, in satisfaction of part of the Consideration
"Conversion Price"	the initial conversion price of the Convertible Notes of HK$0.30 (subject to adjustments)
"Conversion Shares"	the 680,000,000 new Shares to be issued by the Company upon the exercise of the conversion rights attaching to the Convertible Notes, based on the initial conversion price of HK$0.30 per Conversion Share
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement, the Placing Agreement (AIG), the Placing Agreement (VPL) and all the transactions contemplated thereunder
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange

"Group"	the Company and its subsidiaries
"Guarantor"	an individual, the sole registered and beneficial owner of the Vendor
"HKFRS"	Hong Kong Financial Reporting Standards
"Holdco(1)"	深圳市利得迅環保技術有限公司 (Shenzhen Lidesui Huanbao Jishu Company Limited), a company established with limited liability under the laws of the PRC
"Holdco(2)"	深圳市利賽園林綠化有限公司 (Shenzhen Lisai Gardens Luhua Company Limited), a company established with limited liability under the laws of the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	26 February 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Committee"	the Listing Committee of the Stock Exchange
"Noteholders"	holders of the Convertible Notes
"Placing (AIG)"	the allotment and issue of Placing Shares (AIG) to AIG Funds pursuant to the Placing Agreement (AIG)
"Placing (VPL)"	the allotment and issue of Placing Shares (VPL) to VPL Funds pursuant to the Placing Agreement (VPL)
"Placing Agreement (AIG)"	the placing agreement dated 21 December 2007 entered into between the Company and AIG
"Placing Agreement (VPL)"	the placing agreement dated 21 December 2007 entered into between the Company and VPL
"Placing Shares (AIG)"	the 400,000,000 new Shares issuable pursuant to the Placing Agreement (AIG)
"Placing Shares (VPL)"	the 400,000,000 new Shares issuable pursuant to the Placing Agreement (VPL)
"PRC"	People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Purchaser"	II Networks International Limited, a company incorporated under the laws of the BVI and a wholly owned subsidiary of the Company
"Sale Shares"	the entire issued share capital of BEES(BVI)
"SFO"	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of US$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Two Placings"	the Placing (AIG) and the Placing (VPL)
"Vendor"	Ever Sincere Investment Limited, a company incorporated in the BVI with limited liability and a third party independent of the Company and its connected persons
"VPL"	Value Partners Limited, a company incorporated in BVI which is a fund management company and wholly owned by Value Partners Group Limited, the shares of which are listed on the main board of the Stock Exchange
"VPL Funds"	certain funds, sub funds or accounts that VPL is acting for as investment manager or investment advisor
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, RMB are converted into HK$ on the basis of RMB0.985 = HK$1.

For ease of reference, the names of PRC established companies and entities have been included in this circular in both the Chinese and English languages and the English names of these companies and entities are either English translation of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.

IIN INTERNATIONAL LIMITED
國訊國際有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

Executive Directors:
Wu Shu Min *(Chairman)*
Fu Hui Zhong
Xu Zhi Feng

Independent Non-executive Directors:
Liu Yang
Jin Dunshen

Registered office:
Huntlaw Building
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 2201A
22/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

29 February 2008

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND PLACING OF NEW SHARES

INTRODUCTION

The Company announced on 14 January 2008 that on 21 December 2007, the Purchaser entered into the Acquisition Agreement with the Vendor whereby the Purchaser has conditionally agreed to purchase or procure the purchase of, and the Vendor has agreed to sell as legal and beneficial owner the Sale Shares for a total Consideration of HK$704 million, which shall be satisfied as to (i) HK$200 million by cash; (ii) HK$300 million by the issue of the Consideration Shares; and (iii) HK$204 million by the issue of the Convertible Notes.

The Sale Shares represent the entire issued share capital of BEES(BVI), which is the holding company of BEES Group which is principally engaged in provision of heating and cooling system for buildings with the application of geothermal energy, and the research and development, usage of renewable ground-source energy as alternative energy sources for heating and cooling.

* *For identification purposes only*

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules and requires the approval of the Shareholders at the EGM.

On 21 December 2007, the Company entered into the Placing Agreement (AIG) with AIG. Pursuant to the Placing Agreement (AIG), the Company has conditionally agreed to allot and issue an aggregate of 400,000,000 Placing Shares (AIG) to AIG funds at HK$0.25 per Placing Share (AIG). The Placing (AIG) is subject to Shareholders' approval.

On 21 December 2007, the Company also entered into the Placing Agreement (VPL) with VPL. Pursuant to the Placing Agreement (VPL), the Company has conditionally agreed to allot and issue an aggregate of 400,000,000 Placing Shares (VPL) to VPL Funds at HK$0.25 per Placing Share (VPL). The Placing (VPL) is subject to Shareholders' approval.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Acquisition Agreement, the Placing Agreement (AIG), the Placing Agreement (VPL) and the transactions contemplated thereunder. No Shareholders will be required to abstain from voting in the EGM in this regards.

The purpose of this circular is to provide you with, among other things, further details of the Acquisition Agreement, Placing Agreement (AIG) and Placing Agreement (VPL), financial information relating to the Group and BEES Group, the notice of the EGM and other information as required under the GEM Listing Rules.

(1) THE ACQUISITION AGREEMENT

Reference is made to the announcement of the Company dated 5 November 2007 regarding the memorandum of understanding dated 5 November 2007 between the Vendor and the Purchaser in respect of the possible acquisition of not less than 51% but not more than 100% issued share capital of a company incorporated in the BVI.

The Group has entered into the Acquisition Agreement with the Vendor regarding the Acquisition, details of which are set out below.

Date: **21 December 2007**

Parties

(i) The Vendor

The Vendor is an investment holding company which was incorporated on 6 May 2004. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner (i.e. the Guarantor) are third parties independent of the Company and its connected persons.

The Vendor is the legal and beneficial owner of the Sale Shares.

(ii) The Purchaser

II Networks International Limited, a wholly owned subsidiary of the Company.

(iii) The Guarantor

The Guarantor is an individual and the sole legal and beneficial owner of the Vendor. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Guarantor is a third party independent of the Company and its connected persons.

Assets to be acquired

The Vendor shall sell as the legal and beneficial owner of the Sale Shares and the Purchaser shall purchase or procure the purchase of the Sale Shares.

The Sale Shares represent the entire issued share capital of BEES(BVI), which is the holding company of a group of companies which are principally engaging in provision of heating and cooling system for buildings with the application of geothermal energy, and the research and development, usage of renewable ground-source energy as alternative energy sources for heating and cooling which would achieve energy saving, environmental protection, low-cost and safe operation for the use of new energy resources.

Details of BEES Group are set out in the section headed "Information on BEES Group" below.

Consideration

The total consideration of HK$704 million shall be satisfied by the Purchaser in the following manner:

(a) within 3 Business Days after the signing of the Acquisition Agreement, a sum of HK$30,000,000 (being the deposit and part payment of the Consideration) has been paid by the Purchaser to the Vendor;

(b) upon Completion, a sum of HK$170,000,000 (being the part payment of the Consideration) shall be paid by the Purchaser to the Vendor;

(c) upon Completion, the part payment of HK$300,000,000 shall be satisfied by the Purchaser by the allotment and issue of the Consideration Shares by the Company to the Vendor, credited as fully paid at HK$0.30 per Consideration Share and which will rank pari passu with all the Shares then in issue;

(d) as to the remaining balance of HK$204,000,000,

(i) in the event that the net profits after tax of BEES(BVI) attributable to the shareholders of BEES(BVI) for the period of 12 months commencing from Completion Date as reflected in the audited financial statements of BEES(BVI) prepared in accordance with HKFRS and disclosure requirements of the Companies Ordinance is not less than HK$80,000,000, by the issue of the Convertible Notes with the principal amount calculated in accordance with the following formula:

$$\text{HK\$204,000,000} \quad \times \quad \frac{\text{The amount of audited net profit after tax of BEES(BVI) for the aforesaid 12 month period}}{\text{HK\$200,000,000}}$$

within 30 Business Days after the receipt of such audited financial statement (which forms and content must be to the absolute satisfaction of the Purchaser) by the Purchaser; and

(ii) in the event that the net profits after tax of BEES(BVI) attributable to the shareholders of BEES(BVI) for the period of 24 months commencing from Completion Date as reflected in the audited financial statements of BEES(BVI) prepared in accordance with HKFRS and disclosure requirements of the Companies Ordinance is not less than HK$200,000,000, by the issue of the Convertible Notes with the principal amount being the remaining balance of HK$204,000,000 within 30 Business Days after the receipt of such audited financial statement (which forms and content must be to the absolute satisfaction of the Purchaser) by the Purchaser.

For the avoidance of doubt, the aggregate amount of Convertible Notes to be issued will not exceed HK$204 million.

The Consideration is determined after arm's length negotiations between the Vendor and the Purchaser after considering the prospects and growth potential of BEES(BVI). The Consideration values the Sale Shares at HK$704 million and represents a price-earnings multiple of approximately 7.0 times of the annualised guaranteed profit of BEES(BVI) for the 12 months of approximately HK$100,000,000 as detailed in the paragraph headed "Profit Guarantee" below. Given the prospects of the industry and the business potential of BEES(BVI) as more elaborated in the paragraphs headed "Reasons for the Acquisition" below, the Board considers the Consideration is fair and reasonable. The Group intends to finance the cash portion of the Consideration by internal resources and/or debt financing and/or equity fund raising.

The issue price of the Consideration Shares was determined after arm's length negotiations between the Company and the Vendor with reference to the prevailing market price of the Shares which is HK$0.252 (being the average closing price for the 5 preceding days of 21 December 2007). The issue price of HK$0.30 per Consideration Share represents:–

(i) a premium of approximately 1.7% over the closing price of the Shares of HK$0.295 per Share as quoted on the Stock Exchange on 5 November 2007, the date on which the memorandum of understanding was entered into between the Purchaser and the Vendor in connection with the Acquisition;

(ii) a premium of approximately 11.1% over the closing price of the Shares of HK$0.270 per Share as quoted on the Stock Exchange on 21 December 2007, being the last trading day of the Share prior to the suspension in trading pending the release of the Announcement;

(iii) a premium of approximately 16.3% over the average of the closing prices of the Shares of HK$0.258 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 21 December 2007;

(iv) a premium of approximately 15.8% over the average of the closing prices of the Shares of HK$0.259 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 21 December 2007; and

(v) a premium of approximately 51.5% over the closing price of the Shares of HK$0.198 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

An application will be made for the listing of and permission to deal in the Consideration Shares to be issued.

Profit Guarantee

The Vendor warrants and guarantees to the Purchaser that the net profits after tax of the BEES(BVI) attributable to the shareholders of the BEES(BVI) for the period of 24 months commencing from Completion Date as reflected in the audited consolidated financial statements of the BEES(BVI) prepared in accordance with HKFRS ("**24 Month Net Profits**") shall not be less than HK$200 million.

The Vendor covenants with the Purchaser that, in the event that the 24 Month Net Profits is less than HK$200 million, the Vendor shall

(a) pay to the Purchaser an amount in cash (in Hong Kong dollars) equivalent to such shortfall, or

(b) (at the option of the Vendor) transfer to the Purchaser (for no consideration) the Convertible Notes (then already issued to the Vendor and for which the Vendor has not exercised the conversion right thereof, if any) of such principal amount equivalent to or less than the amount of the shortfall (as the Vendor may elect) free from all encumbrances, and pay to the Purchaser an amount in cash (in Hong Kong dollars) equivalent to the remaining balance of such shortfall,

within 30 Business Days of the date on which the relevant financial statements are made available to the Vendor. In the event BEES(BVI) incurs a loss during the period of 24 months commencing from the Completion Date, "**shortfall**" (i.e. the total amount payable by the Vendor) shall mean the aggregate amount of (a) HK$200 million; and (b) the amount of the loss.

In accordance with the terms of the Convertible Notes, to the extent required by law, in the event that the 24 Month Net Profits is less than HK$200 million and the Vendor elects to settle any part of the shortfall by transferring any part of the Convertible Notes (issued to the Vendor but prior to the exercise of conversion right thereof) to the Purchaser (for no consideration) as mentioned above, such transferred Convertible Notes shall be cancelled.

In order to determine whether BEES(BVI) is able to meet the profit guarantee, it is intended that the Company will instruct BEES(BVI) to prepare audited financial statements in accordance with HKFRS for the 12 month and 24 month periods commencing from the Completion Date respectively.

Conditions Precedent

Completion is conditional upon the fulfilment or waiver (as the case may be) of the following conditions on or before 31 March 2008 (or such other date as Vendor and the Company may otherwise agree in writing) ("**Acquisition Long Stop Date**"):

(a) the passing by the Shareholders in general meeting of the necessary resolutions approving the Acquisition Agreement, the issue of the Consideration Shares, the Convertible Notes and the Conversion Shares, and other transactions contemplated in or incidental to the Acquisition Agreement in accordance with the GEM Listing Rules;

(b) the directors and shareholders of the Vendor and, where applicable, BEES(BVI) and the applicable approval authorities having approved the transfer of the Sale Shares and the transactions contemplated under the Acquisition Agreement;

(c) the Purchaser having completed its due diligence on each of member of the BEES Group (including without limitation, review of business, legal, financial, commercial and taxation aspects), the results of which are, in the absolute opinion of the Purchaser, satisfactory and acceptable to the Purchaser in all respects;

(d) the Stock Exchange having granted approval for the issue of the Consideration Shares and the Conversion Shares either unconditionally or subject to conditions to which neither the Vendor nor the Purchaser reasonably objects and such conditions (if any) having been satisfied and the Listing Committee having granted listing of and permission to deal in the Consideration Shares and the Conversion Shares;

(e) there shall have been delivered to the Purchaser, in a form satisfactory to the Purchaser, in its absolute discretion, legal opinions, dated the Completion Date, of legal advisers as to PRC law, BVI law, the Cayman Islands laws and Hong Kong laws acceptable to the Purchaser and such other resolutions, consents, authorities, documents and clearance relating to the Acquisition Agreement and the transactions contemplated thereunder, as the Purchaser may reasonably require;

(f) completion of the Placing Agreement(AIG) and the Placing Agreement(VPL);

(g) all the representations, warranties and undertakings and indemnities made or given by the Vendor to the Purchaser in the Acquisition Agreement remaining true and accurate as at Acquisition Completion; and

(h) all necessary waivers, consents, permits and approval (whether governmental, regulatory or otherwise, including, without limitation, those of the Stock Exchange) as may be required in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained.

The Purchaser shall be entitled in its absolute discretion to waive any of the Acquisition Conditions (save that the Acquisition Conditions (a), (b), (d) and (h) cannot be waived) either in whole or in part. If any of the Acquisition Conditions has not been satisfied (or as the case may be, waived by the Purchaser) on or before the Acquisition Long Stop Date, the Acquisition Agreement shall automatically terminate and none of the parties to the Acquisition Agreement shall have any claim of any nature or liabilities hereunder whatsoever against any of the other parties under the Acquisition Agreement (save for any antecedent breaches of the terms hereof) provided that the Vendor shall return to the Purchaser the amount of HK$30,000,000 (without interest) paid by it pursuant to the Acquisition Agreement.

Completion

Completion shall take place on the Completion Date at 4:00 p.m. (or at such other time as the parties may agree in writing) when all acts and requirements set out in the Acquisition Agreement shall be complied with.

Upon Completion, BEES(BVI) will become a wholly-owned subsidiary of the Company and BEES(BVI)'s subsidiaries will all become indirectly owned subsidiaries of the Company. The results and net assets of BEES(BVI) will be consolidated in the Group's accounts.

There is no provision in the Acquisition Agreement nor any present intention regarding the change in board composition in the Company.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

Aggregate principal amount:	HK$204 million
Conversion price:	HK$0.30 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues.

The Conversion Price of HK$0.30 per Share represents:–

(i) a premium of approximately 1.7% over the closing price of the Shares of HK$0.295 per Share as quoted on the Stock Exchange on 5 November 2007, the date on which the memorandum of understanding was entered into between the Purchaser and the Vendor in connection with the Acquisition;

(ii) a premium of approximately 11.1% over the closing price of the Shares of HK$0.270 per Share as quoted on the Stock Exchange on 21 December 2007, being the last trading day of the Share prior to the suspension in trading pending the release of the Announcement;

(iii) a premium of approximately 16.3% over the average of the closing prices of the Shares of HK$0.258 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 21 December 2007;

(iv) a premium of approximately 15.8% over the average of the closing prices of the Shares of HK$0.259 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 21 December 2007; and

(v) a premium of approximately 51.5% over the closing price of the Shares of HK$0.198 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was determined after arm's length negotiations between the Company and the Vendor with reference to the prevailing market price of the Shares.

Interest rate: The Convertible Notes do not bear any interest.

Maturity:	The fifth anniversary of the date of issue of the Convertible Notes.
Redemption:	The Convertible Notes shall be redeemed by the Company at its principal amount outstanding on maturity.
Transferability:	The Convertible Notes or any part(s) thereof may be assigned or transferred only with the prior written consent of the Company and subject to compliance of the conditions thereunder and further subject to the conditions, approvals, requirements and any other provisions of or under:– (a) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or their rules and regulations; (b) the approval for listing in respect of the Conversion Shares; and (c) all applicable laws and regulations. If the Convertible Notes or any part(s) thereof shall be transferred to any company or other person which is a connected person of the Company, the Company shall promptly notify the Stock Exchange.
Conversion period:	The Noteholders shall have the right to convert on any Business Day during the period commencing from the 5th Business Day after the date of issue of the Convertible Notes and ending on the 5th Business Day prior to the maturity date of the Convertible Notes (both dates inclusive) the whole or any part(s) of the principal amount of the Convertible Notes into Shares at the Conversion Price, provided that such part of the principal amount of the Convertible Notes to be converted shall not be less than HK$500,000 at any one time (save that if at any time the principal outstanding amount of the Convertible Notes shall be less than HK$500,000, the whole (but not part only) of the principal amount of the Convertible Notes may be converted). The Noteholders shall exercise the right of conversion to the extent that the public float of the Company will not be less than 25% of the issued share capital of the Company immediately after such conversion.
Conversion Shares:	Upon full conversion of the Convertible Notes at the Conversion Price of HK$0.30 per Share, an aggregate of 680,000,000 Conversion Shares will be issued, representing approximately

	(i) 17.65% of the existing issued share capital of Company; (ii) 12.03% of the issued share capital of Company as enlarged by the issue of the Consideration Shares, the Placing Shares (AIG) and the Placing Shares (VPL); and (iii) 10.74% of the issued share capital of Company as enlarged by the issue of the Consideration Shares, the Placing Shares (AIG), the Placing Shares (VPL) and the Conversion Shares.
Voting:	The Noteholders shall not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the Noteholders.
Listing:	No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made for the listing of and permission to deal in the Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Notes.
Ranking:	The Convertible Notes will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable laws. The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Notes will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Convertible Notes are exercised.

(2) PLACING AGREEMENT (AIG)

Date: 21 December 2007

Parties

(i) The Company, as issuer; and

(ii) AIG

Pursuant to the Placing Agreement (AIG), the Placing Shares (AIG) will be subscribed by AIG Funds as AIG may direct.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, AIG is a third party independent of the Company and its connected persons. AIG is a third party independent of and not acting in concert with the Vendor.

Number of Placing Shares (AIG)

400,000,000 new Shares representing (i) approximately 10.38% of the existing issued share capital of the Company; (ii) approximately 7.08% of the Company's enlarged issued share capital immediately after the Acquisition Completion and the issue of the Consideration Shares, the Placing Agreement (AIG) and the Placing Agreement (VPL); and (iii) approximately 6.32% of the Company's enlarged issued share capital immediately after completion of the Acquisition, the Placing (AIG) and the Placing (VPL), and upon full conversion of the Convertible Notes at the initial conversion price of HK$0.30 (assuming there is no other change of shareholding after the Latest Practicable Date).

Placing Price (AIG)

The Placing Price (AIG) of HK$0.25 per Placing Share (AIG) represents:

(i) a discount of approximately 7.4% to the closing price of the Shares of HK$0.270 as quoted on the Stock Exchange on 21 December 2007;

(ii) a discount of approximately 3.1% to the average closing price per Share of HK$0.258 as quoted on the Stock Exchange for the last five consecutive trading days immediately before and including 21 December 2007;

(iii) a discount of approximately 3.5% to the average closing price per Share of HK$0.259 as quoted on the Stock Exchange for the last ten trading days immediately before and including 21 December 2007; and

(iv) a premium of approximately 26.3% over the closing price of the Shares of HK$0.198 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Placing Price (AIG) was negotiated and determined on an arm's length basis between the Company and AIG with reference to the closing prices as shown above. Given the large size of the Placing Shares (AIG) involved (which represent approximately 10.38% of the existing Shares in issue), the Directors consider the relative discount of approximately 3.1% to the average closing price per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 21 December 2007 is fair and reasonable. As such, the Directors consider that the terms of the Placing (AIG) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ranking of the Placing Shares (AIG)

The Placing Shares (AIG), when fully paid and issued, will rank pari passu in all respects among themselves and with all other Shares in issue as at the date of allotment and issue.

Mandate to issue the Placing Shares (AIG)

The Placing Shares (AIG) will be allotted and issued pursuant to the special mandate to be granted to the Directors at the EGM.

Conditions of the Placing (AIG)

The Placing (AIG) is conditional upon the fulfilment and waiver (as the case may be) of the following conditions ("**AIG Conditions**") on or before 31 March 2008 (or such other date as AIG and the Company may otherwise agree in writing) ("**AIG Long Stop Date**"):

(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Placing Shares (AIG);

(b) the Shareholders having approved the Placing Agreement (AIG) and all transactions contemplated thereunder;

(c) the Acquisition Completion; and

(d) if required, the Company having obtained all consents and approvals from applicable authorities required for the Placing (AIG) and the issue of the Placing Shares (AIG).

AIG may waive in whole or in part AIG Condition (c). Apart from that, none of the AIG Conditions may be waived by either parties. In the event that the AIG Conditions are not fulfilled or waived on or before the AIG Long Stop Date, the Placing Agreement (AIG) shall terminate and none of the parties to the Placing Agreement (AIG) shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement (AIG)).

Completion of the Placing (AIG)

Completion of the Placing (AIG) is expected to take place on the fifth (5th) Business Day following the fulfillment or wavier of the AIG Conditions (or such other date and time as the Company and AIG shall agree) and simultaneously with the Acquisition Completion. Unless AIG agrees otherwise, AIG is not obliged to complete the Placing (AIG) in the event that the Acquisition is not completed simultaneously.

(3) PLACING AGREEMENT (VPL)

Date: 21 December 2007

Parties

(i) The Company, as issuer; and

(ii) VPL

Pursuant to the Placing Agreement (VPL), VPL agrees to procure the VPL Funds to subscribe for the Placing Shares (VPL).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, VPL is a third party independent of the Company and its connected persons. VPL is a third party independent of and not acting in concert with the Vendor.

Number of Placing Shares (VPL)

400,000,000 new Shares representing (i) approximately 10.38% of the existing issued share capital of the Company; (ii) approximately 7.08% of the Company's enlarged issued share capital immediately after the Acquisition Completion and the issue of the Consideration Shares, the Placing Agreement (AIG) and the Placing Agreement (VPL); and (iii) approximately 6.32% of the Company's enlarged issued share capital immediately after completion of the Acquisition, the Placing (AIG) and the Placing (VPL), and upon full conversion of the Convertible Notes at the initial conversion price of HK$0.30 (assuming there is no other change of shareholding after the Latest Practicable Date).

Placing Price (VPL)

The Placing Price (VPL) of HK$0.25 per Placing Share (VPL) represents:

(i) a discount of approximately 7.4% to the closing price of the Shares of HK$0.27 as quoted on the Stock Exchange on 21 December 2007;

(ii) a discount of approximately 3.1% to the average closing price per Share of HK$0.258 as quoted on the Stock Exchange for the last five consecutive trading days immediately before and including 21 December 2007;

(iii) a discount of approximately 3.5% to the average closing price per Share of HK$0.259 as quoted on the Stock Exchange for the last ten trading days immediately before and including 21 December 2007; and

(iv) a premium of approximately 26.3% over the closing price of the Shares of HK$0.198 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Placing Price (VPL) was negotiated and determined on an arm's length basis between the Company and VPL with reference to the closing prices as shown above. Given the large size of the Placing Shares (VPL) involved (which represent approximately 10.38% of the existing Shares in issue), the Directors consider the relative discount of approximately 3.1% to the average closing price per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including 21 December 2007 is fair and reasonable. As such, the Directors consider that the terms of the Placing (VPL) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ranking of the Placing Shares (VPL)

The Placing Shares (VPL), when fully paid and issued, will rank pari passu in all respects among themselves and with all other Shares in issue as at the date of allotment and issue.

Mandate to issue the Placing Shares (VPL)

The Placing Shares (VPL) will be allotted and issued pursuant to the special mandate to be granted to the Directors at the EGM.

Conditions of the Placing (VPL)

The Placing (VPL) is conditional upon the fulfilment and waiver (as the case may be) of the following conditions ("**VPL Conditions**") on or before 31 March 2008 (or such other date as VPL and the Company may otherwise agree in writing) ("**VPL Long Stop Date**"):

(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Placing Shares (VPL);

(b) the Shareholders having approved the Placing Agreement (VPL) and all transactions contemplated thereunder;

(c) the Acquisition Completion; and

(d) if required, the Company having obtained all consents and approvals from applicable authorities required for the Placing (VPL) and the issue of the Placing Shares (VPL).

VPL may waive in whole or in part VPL Condition (c). Apart from that, none of the VPL Conditions may be waived by either parties. In the event that the VPL Conditions are not fulfilled or waived on or before the VPL Long Stop Date, the Placing Agreement (VPL) shall terminate and none of the parties to the Placing Agreement (VPL) shall have any claim against the other in respect thereof (save for any prior breaches of the Placing Agreement (VPL)).

Completion of the Placing (VPL)

Completion of the Placing (VPL) is expected to take place on the fifth (5th) Business Day following the fulfillment or wavier of the VPL Conditions (or such other date and time as the Company and VPL shall agree) and simultaneously with the Acquisition Completion. Unless VPL agrees otherwise, VPL is not obliged to complete in the event that the Acquisition is not completed simultaneously.

APPLICATION FOR LISTING

Application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the Consideration Shares, Conversion Shares, Placing Shares (AIG) and Placing Shares (VPL).

CHANGES IN SHAREHOLDING OF THE COMPANY

The shareholding of the Company (i) as at the Latest Practicable Date; (ii) upon completion of the Acquisition, the Placing (AIG) and the Placing (VPL); and (iii) upon full conversion of the Convertible Notes at the initial conversion price of HK$0.30 (assuming there is no other change of shareholdings after the Latest Practicable Date) are as follows:

	As at the Latest Practicable Date		**Upon completion of the Acquisition, the Placing (AIG) and the Placing (VPL)**		**Upon full conversion of the Convertible Notes at the initial conversion price of HK$0.30**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Wu Shu Min *(Note 1)*	146,023,000	3.79%	146,023,000	2.58%	146,023,000	2.30%
Xu Zhi Feng *(Note 1)*	4,376,000	0.11%	4,376,000	0.08%	4,376,000	0.07%
The Vendor *(Note 2)*	–	–	1,000,000,000	17.69%	1,680,000,000	26.53%
China Standard Limited *(Note 3)*	500,000,000	12.98%	500,000,000	8.84%	500,000,000	7.89%
AIG funds	–	–	400,000,000	7.08%	400,000,000	6.32%
VPL Funds	–	–	400,000,000	7.08%	400,000,000	6.32%
Other public Shareholders	3,202,713,470	83.12%	3,202,713,470	56.65%	3,202,713,470	50.57%
Total public Shareholders	3,202,713,470	83.12%	4,502,713,470	79.65%	4,502,713,470	71.10%
Total	3,853,112,470	100.00%	5,653,112,470	100.00%	6,333,112,470	100.00%

Notes:

1. Both Mr. Wu Shu Min and Mr. Xu Zhi Feng are Directors.

2. No conversion right may be exercised, to the extent that following such exercise, a Noteholder and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the entire issued Shares. Thus, there will not be a change in control of the Company upon full conversion of the Convertible Notes.

3. As at the Latest Practicable Date, China Standard Limited was a substantial Shareholder. Save as disclosed above and so far as is known to the Directors, China Standard Limited and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

INFORMATION ON BEES GROUP

BEES(BVI) is a limited liability company incorporated on 15 November 2001 in the BVI. BEES(BVI) and its subsidiaries are engaged in businesses including but not limited to provision of heating and cooling system for buildings with the use of shallow ground energy. Shallow ground energy is a form of geothermal energy which is a kind of renewable energy generated by extracting the heat within the Earth. The BEES Group has been developing the heating and cooling systems for provision of heating and cooling for buildings and heating of domestic water. The core system developed and provided by the BEES Group is the central liquid cooling/heating source environmental system (中央液態冷熱源環境系統) which is currently provided by the BEES Group with the use of shallow ground energy. Basically, central liquid cooling/heating source environmental system consists of energy gathering system, energy promotion system and terminal releasing system. Energy gathering system uses groundwater as medium and water pump as conveying power to deliver heat energy gathered from the shallow ground to heat exchanger. The system performs heat exchange with the circulating water from energy promotion system. After going through a series of process in the energy promotion system which consists of evaporator, condenser, compressor and expanding valve, etc., the circulating water of terminal energy releasing system absorbs heat from condenser and goes through terminal circulating pump to a fan coil unit to provide heating for buildings or to let heat exchanger heat up tap water. The heated tap water is used as domestic hot water and being supplied to the needed places.

The major sources of turnover of the BEES Group are the development projects of the heating and cooling systems for buildings in the PRC including hotels, residential and office buildings. Since 1 January 2005, over 350 buildings with a total area of 5 million square metres have been installed with the systems provided by the BEES Group. The BEES Group is also engaged in the research, manufacture, sale and installation of the equipment and devices in relation to the heating and cooling systems.

Set out below is the audited consolidated financial information of BEES(BVI) for each of the three years ended 31 December 2004, 2005 and 2006 and the audited consolidated financial information of BEES(BVI) for the eleven months ended 30 November 2007 prepared in accordance with the generally accepted accounting principles ("GAAP") in Hong Kong and extracted from Appendix II of this circular:

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Turnover	193.4	87.9	91.5	78.8	164.4
Profit/(loss) before tax	(11.3)	(97.1)	14.6	4.2	64.8
Profit/(loss) for the years/periods	(12.4)	(97.9)	13.5	3.6	63.5

	As at 31 December			As at 30 November
	2004	**2005**	**2006**	**2007**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
Total assets	424.6	342.4	332.3	447.7
Net assets	168.5	74.1	71.8	168.3

According to the accountants' report of the BEES Group as set out in Appendix II to this circular, for the year ended 31 December 2005, the BEES Group recorded audited loss before taxation of approximately HK$97.1 million and audited loss after taxation of approximately HK$97.9 million. The above audited loss is much greater than the unaudited loss for the same period as set out in the Announcement. In the Announcement, the unaudited loss before taxation was approximately HK$55.2 million and the loss after taxation was approximately HK$54.8 million. The difference between the audited loss and the unaudited loss is mainly due to the PRC/HK GAAP adjustment made in relation to the impairment loss of the aged trade receivables, which was mainly attributable to those trade debtors who have been over the normal credit periods and whose recoverability was in doubt. Normally, the credit period granted by the BEES Group to trade debtors is one year. According to the accountants' report of the BEES Group, the impairment loss of trade receivables for the year ended 31 December 2005 was approximately HK$48.5 million, which mainly accounted for the difference between the audited and unaudited account.

According to the accountants' report of the BEES Group as set out in Appendix II to this circular, for the eleven months ended 30 November 2007, the BEES Group recorded profit before taxation of approximately HK$64.8 million and profit after taxation of approximately HK$63.5 million. In the Announcement, the profit before taxation was approximately HK$30.6 million and profit after taxation was approximately HK$30.5 million for the same period. The difference is mainly attributable to the adjustment on timing of revenue recognition. According to the reporting accountants of the Company, more revenue from some of the contracts of the BEES Group should be recognized for the period ended 30 November 2007. Since the BEES Group was mainly engaged in business of construction projects, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to the balance sheet dates to the estimated total cost of the relevant contracts in accordance to the Hong Kong Accounting Standards 11 "Construction Contracts" (the "HKAS 11"). As at 30 November 2007, most of the construction contracts undertaken by the BEES Group have attained an excess of percentage of completion than the contract terms, more revenue was therefore should be recognised for the period ended 30 November 2007 in accordance with HKAS 11. The profit set out in the accountants' report was therefore higher than that disclosed in the Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BEES Group

BEES(BVI) was established on 15 November 2001 under the laws of the BVI with limited liability. BEES Group is engaged in businesses including but not limited to provision of heating and cooling system for buildings with the use of shallow ground energy. Set out in Appendix II to this circular is the accountants' report on BEES Group covering each of the three financial years ended 31 December 2004, 2005 and 2006 and the eleven months ended 30 November 2007. Based on the information provided by the management of BEES(BVI), the management discussion and analysis in relation to BEES Group for each of the aforesaid periods is set out below:

For the year ended 31 December 2004

Turnover for the year was approximately HK$193.4 million with gross profit of approximately HK$39.5 million. After including the other revenue and other income in an aggregate amount of approximately HK$7.6 million and deducting the selling and distribution costs, the administrative expenses and finance cost of approximately HK$7.3 million, HK$42.8 million and HK$9.0 million respectively, BEES Group recorded loss before tax of approximately HK$11.3 million. The loss for the year was approximately HK$12.4 million. As at 31 December 2004, the net asset value of BEES Group was approximately HK$168.5 million.

For the year ended 31 December 2005

Turnover for the year decreased to approximately HK$87.9 million with gross loss of approximately HK$0.3 million. After including the other revenue and other income in an aggregate amount of approximately HK$7.4 million and deducting the selling and distribution costs, the administrative expenses and finance cost of approximately HK$7.5 million, HK$89.3 million and HK$7.5 million respectively, BEES Group recorded loss before tax of approximately HK$97.1 million. The loss for the year was approximately HK$97.9 million. Compared with the turnover in 2004, BEES Group recorded a decrease of approximately 54.5% of turnover in 2005. The substantial decrease in turnover in 2005 was mainly because (i) BEES Group ceased to provide the installation service with low profitability; and (ii) the transformation of BEES(BVI)'s business from an engineering contractor to an equipment and device supplier and technical service provider of heating and cooling systems had led to temporary slowdown in market promotion. Further net loss was recorded for the year compared with that in 2004. This was mainly because (i) costs of certain engineering projects (where no contracts had yet to be secured) were recorded in the cost of sales; (ii) follow-up service costs relating to projects finished in prior years were incurred; and (iii) the impairment loss of the aged trade receivable of approximately HK$48.5 million was recorded in the administrative expenses for the year. As at 31 December 2005, the net asset value of BEES Group was approximately HK$74.1 million.

For the year ended 31 December 2006

Turnover for the year was approximately HK$91.5 million with gross profit of approximately HK$36.7 million. After including the other revenue and the other income at an aggregate of approximately HK$42.5 million and deducting the selling and distribution costs, the administrative expenses and finance cost of approximately HK$21.1 million, HK$34.1 million and HK$8.7 million respectively, BEES Group recorded profit before tax of approximately HK$14.6 million. The profit after tax was approximately HK$13.5 million. The turnaround in 2006 was mainly because the transformation of business model in 2005 had showed a positive impact gradually to the business of the BEES Group in general. As at 31 December 2006, the net asset value of BEES Group was approximately HK$71.8 million.

Eleven months ended 30 November 2007

For the eleven months ended 30 November 2007, BEES Group recorded an increase in turnover by approximately 108.6% compared with the turnover in the corresponding period of previous year. The turnover for the period ended 30 November 2007 was approximately HK$164.4 million with gross profit of approximately HK$80.4 million. The substantial increase in the turnover for the period ended 30 November 2007 was mainly because most of the engineering projects commenced during the year in 2006 had been completed in 2007. Therefore, the relevant revenue was recorded in the period ended 30 November 2007. After including the other revenue, and other income of an aggregate of approximately HK$43.3 million and deducting the selling and distribution costs, the administrative expenses and finance cost of approximately HK$15.9 million, HK$34.5 million and HK$6.3 million respectively, BEES Group recorded profit before tax of approximately HK$64.8 million. The profit after tax was approximately HK$63.5 million. As at 30 November 2007, the net asset value of BEES Group was approximately HK$168.3 million.

Current fund and financial resources

As at 31 December 2004, 2005 and 2006 and 30 November 2007, the cash position of BEES Group was approximately HK$114.0 million, HK$71.1 million, HK$84.0 million and HK$73.8 million respectively. The trade receivables as at 31 December 2004, 2005 and 2006 and 30 November 2007 were approximately HK$185.8 million (comprising approximately 77.8% of less than one year trade receivables), HK$141.8 million (comprising approximately 37.0% of less than one year trade receivables), HK$72.2 million (comprising approximately 62.0% of less than one year trade receivables) and HK$48.0 million (comprising approximately 96.9% of less than one year trade receivables) respectively.

The interest-bearing bank borrowings for BEES Group (all are repayable within one year) as at 31 December 2004, 2005 and 2006 and 30 November 2007 were approximately HK$146.2 million, HK$170.7 million, HK$155.0 million and HK$170.7 million respectively.

The amount due to related parties for BEES Group as at 31 December 2004, 2005 and 2006 and 30 November 2007 was approximately HK$0.2 million, HK$1.1 million, HK$1.6 million and HK$3.9 million respectively. There was no amount due to immediate holding company for BEES Group as at 31 December 2004 and 2005. As at 31 December 2006 and 30 November 2007, the amount due to immediate holding company for BEES Group was approximately HK$21.7 million for the both years end. The amounts due to related parties/immediate holding company for BEES Group are unsecured, interest-free and repayable on demand.

The gearing ratios as at 31 December 2004, 2005 and 2006 and 30 November 2007 (calculated on the basis of interest-bearing borrowings over total assets) were approximately 0.34, 0.50, 0.47 and 0.38 respectively.

Charge on assets

No assets of BEES Group were charged as at 31 December 2004, 2005 and 2006 and 30 November 2007.

Foreign currency risk

The transactions of BEES Group are principally denominated in RMB. The foreign currency risk is minimal.

Capital commitments and contingent liabilities

As at 31 December 2006, BEES Group had a capital commitment of HK$26.2 million in relation to the acquisition of companies. Save as the aforesaid capital commitment, BEES Group had no significant capital commitments and contingent liabilities as at 31 December 2004, 2005 and 2006 and 30 November 2007.

Number of employees

As at 31 December 2004, 2005 and 2006 and 30 November 2007, BEES Group had about 221, 310, 342 and 323 employees respectively. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

Significant investments, material acquisitions and disposals

BEES Group did not have any significant investment, material acquisition and disposal during the three year ended 31 December 2006 and eleven months ended 30 November 2007.

Business review and prospect

BEES (BVI) was incorporated in the BVI on 15 November 2001. The operations of BEES Group involve the use of geothermal energy and development of related technology which can contribute to energy saving and benefit the environment in the long run. In 2005, BEES Group had transformed its business from an engineering contractor to an equipment and device supplier and technical service provider. Such transformation caused an impact on its turnover for the said year. During the same year, the impairment loss of the aged trade receivables of approximately HK$48.5 million had been made. As a result BEES Group had recorded a substantial loss in 2005. After the restructuring of operations in 2005, BEES Group recorded profits for the year ended 31 December 2006 and the eleven months ended 30 November 2007. In the future, BEES Group will continue its existing business on developing the heating and cooling systems.

WAIVER FROM STRICT COMPLIANCE OF THE GEM LISTING RULES

Pursuant to Rule 7.05(1)(a) of the GEM Listing Rules, it is required that the accountants' report of the BEES Group must cover three financial years immediately preceding the issue of this circular. As this circular is required to be despatched in February 2008, it is considered unduly burdensome for the BEES Group to prepare an accountants' report within a short period of time after the financial year end on 31 December 2007. The Company has applied to, and the Stock Exchange has granted, a waiver from strict compliance with Rule 7.05(1)(a) of the GEM Listing Rules with the conditions that (i) this circular is to be despatched on or before 29 February 2008 and the EGM for approving the Acquisition will be held on or before 17 March 2008; and (ii) the Directors confirm that they have performed sufficient due diligence on the BEES Group to ensure that, up to the date of this circular, there has been no material adverse change in the financial position or prospects of the BEES Group since 30 November 2007 and there is no event since 30 November 2007 which would materially affect the information shown in the accountants' report of the BEES Group as set out in the appendix II of this circular. The Directors confirm that the above condition (ii) has been fulfilled.

REASONS FOR THE ACQUISITION

The Group is principally engaged in business of provision of network solutions to the PRC telecommunications service providers including, manufacturing and sale of communication cables and fibre optic cables. The Group is also engaged in business of provision of environmental protection solutions which covers synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage and waste water and utilisation of new energy sources. The Group will continue its existing business. Over the past two years, the Group has been exploring new business opportunities in order to enhance the business base and to improve the performance of the Group. In early November 2007, the Company completed the acquisition of Shenzhen Lisai Industrial Development Co., Ltd which is engaged in businesses relating to research and development of environmental protection related facilities, the handling of garbage and sewage, utilization of marsh gas and new energy sources.

The Acquisition represents an attractive opportunity for the Group to further diversify into a new business segment other than the transmission & telecommunication segments. The Directors consider that the environmental protection is a global concern and energy saving should be encouraged. As aforesaid, the geothermal energy is a renewable green energy source and environment friendly in nature. The involvement of BEES Group in the use of geothermal energy and development of related technology can contribute to energy saving and benefit the environment in the long run. Further, the business development of BEES Group is in line with the development of environmental protection industry in China. According to the State Environmental Protection Administration of China estimates, investment in environmental protection in China during the 2006-2011 period will reach RMB1.3 trillion, almost doubling the amount of RMB700 billion of the preceding five years. The Directors believe that the business carried on by BEES Group is growing and are of the view that the PRC government will encourage and render support to the enterprises engaging in business relating to environmental protection. In view of the growth potential of BEES Group and future prospects of the industry, the Board considers the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable. At present, the Directors do not have expertise in the new business. To facilitate the running of the new business, apart from relying on the existing technical team of BEES Group, the Directors may also consider recruiting relevant professionals.

REASONS FOR TWO PLACINGS AND USE OF NET PROCEEDS FROM THE TWO PLACINGS

The gross proceeds from the Two Placings will be approximately HK$200 million in aggregate, being HK$100 million from the Placing (AIG) and HK$100 million from the Placing (VPL). The net proceeds after deducting the related professional fees and all other related expenses incurred in connection with the Two Placings, which will be borne by the Company, are expected to be approximately HK$199 million, representing a net Placing Price (AIG) and a net Placing Price (VPL) of approximately HK$0.2487 per Placing Share (AIG) and Placing Share (VPL) respectively. The Company intends to apply as to (i) HK$170 million of the net proceeds for financing the cash consideration of HK$170 million of the Acquisition; and (ii) HK$29 million for general working capital and development of its existing business. In the event that the Acquisition Conditions cannot be fulfilled or waived and therefore the Acquisition cannot proceed, the Two Placings will not proceed unless AIG and/or VPL agree(s) to proceed with the Placing (AIG) and the Placing (VPL) respectively. In such event, the Company will use the whole of the net proceeds as general working capital of the Company.

The Company still has approximately HK$80 million unutilized proceeds from its previous three placings of Shares as set out in the paragraph headed "Equity fund raising activities of the Company in the past twelve-month period" below.

Besides, the Two Placings enable the Company to further broaden the Shareholder base and enhance the capital base of the Company.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Following the completion of the Acquisition, BEES(BVI) will become a wholly-owned subsidiary of the Company and its results would be consolidated into the accounts of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the pro forma net assets of the Enlarged Group following the Acquisition would increase by approximately HK$503.8 million, comprising of an increase of total assets and total liabilities of approximately HK$914.5 million and HK$410.7 million respectively. The respective unaudited pro forma net profit of the Enlarged Group following the Acquisition would increase by approximately HK$4.3 million. Given the historical financial performance of BEES(BVI), the Acquisition is expected to have positive effects on the revenue and earnings of the Enlarged Group.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE-MONTH PERIOD

Date of announcement	Event	Discount/ premium to/over the market price	Net proceeds (approximate)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
14 May 2007	Placing of 325,600,000 new Shares by Quam Securities Company Limited	The placing price of HK$0.095 represented a discount of approximately 18.8% to the closing price of the Shares of HK$0.117 as quoted on the Stock Exchange on 14 May 2007	HK$30 million	General working capital	Approximately HK$30 million had been used as general working capital
6 June 2007	Placing of 1,000,000,000 new Shares by Quam Securities Company Limited	The placing price of HK$0.12 represented a discount of approximately 48.72% to the closing price of the Shares of HK$0.234 as quoted on the Stock Exchange on 5 June 2007	HK$118 million	HK$38 million for general working capital	Approximately HK$20 million had been paid to China Standard Limited as part of the cash consideration of the acquisition as referred to the Company's announcement dated 15 August 2007. Approximately HK$3 million had been used as general working capital. The remaining approximately HK$15 million has been deposited in banks and will be used as general working capital as intended and will be reserved for future investment and acquisition of business.

Date of announcement	Event	Discount/ premium to/over the market price	Net proceeds (approximate)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
				HK$80 million for development of existing business	HK$30 million had been paid to the Vendor as deposit and being part of the cash consideration pursuant to the Acquisition Agreement. The remaining HK$50 million has been deposited in banks and will be used for development of existing business especially the expansion of the production scale of the telecom transmission business and will be reserved for future investment and acquisition of business.
19 September 2007	Placing of 390,752,000 new Shares by Pacific Foundation Securities Limited	The placing price of HK$0.198 represented a discount of approximately 18.5% to the closing price of the Shares of HK$0.243 as quoted on the Stock Exchange on 11 September 2007	HK$75 million	Financing the cash consideration of the acquisition of a group of companies engaging in environmental protection business by the Group, details of which are set out in the announcement of the Company dated 15 August 2007 and the remaining balance of the net proceeds as general working capital of the Company.	HK$60 million had been paid to China Standard Limited as part of the cash consideration of the acquisition as referred to the Company's announcement dated 15 August 2007. The remaining of approximately HK$15 million deposited in banks and will be used as general working capital as intended and will be reserved for future investment and acquisition of business.

LISTING RULES IMPLICATIONS AND EGM

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules which requires the approval by the Shareholders at the EGM.

The EGM will be convened and held for the Shareholders to consider and, if consider appropriate, to approve the Acquisition Agreement, the Placing Agreement (AIG), the Placing Agreement (VPL) and the transactions contemplated thereunder. No Shareholders will be required to abstain from voting to approve the Acquisition and the Two Placings in the EGM.

RECOMMENDATION

The Directors are of the opinion that the terms of the Acquisition Agreement, the Placing Agreement (AIG) and the Placing Agreement (VPL) are fair and reasonable and that the Acquisition Agreement, the Placing Agreement (AIG) and the Placing Agreement (VPL) are in the interests of the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
IIN International Limited
Wu Shu Min
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the last three financial years ended 30 September 2007, and the published unaudited results of the Group for the three months ended 31 December 2007 are set out below. This summary does not form part of the audited financial statements.

Results

	Three months ended 31 December	Year ended 30 September		
	2007	**2007**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)			
Revenue	36,904	106,369	71,013	60,069
Profit/(loss) before tax	1,397	4,420	(13,232)	(86,334)
Income tax	(160)	(1,153)	(1,056)	(240)
Profit/(loss) for the year	1,237	3,267	(14,288)	(86,574)
Attributable to:				
Equity holders of the Company	986	2,594	(16,204)	(82,097)
Minority interests	251	673	1,916	(4,477)
	1,237	3,267	(14,288)	(86,574)

Assets, liabilities and minority interests

	As at 30 September		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	228,456	60,448	75,502
Total liabilities	(81,563)	(72,178)	(80,179)
Minority interests	(16,125)	(10,195)	(7,981)
Total equity	130,768	(21,925)	(12,658)

Note: From 1 October 2005, the Group has adopted for the first time the new or revised standards and interpretations of Hong Kong Financial Reporting Standards, which are relevant to its operations.

2. AUDITED FINANCIAL INFORMATION ON THE GROUP

Set out below is a reproduction of the text of the audited financial statements of the Group together with the accompanying notes contained on pages 21 to 71 of the annual report of the Company for the year ended 30 September 2007.

"CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	7	106,369	71,013
Cost of sales		(94,293)	(61,262)
Gross profit		12,076	9,751
Other revenue and income	9	21,815	4,795
Selling and distribution costs		(4,441)	(3,822)
Administrative expenses		(14,308)	(13,624)
Other operating expenses		(8,032)	(7,877)
Profit/(loss) from operations	10	7,110	(10,777)
Finance costs	11	(2,690)	(2,455)
Profit/(loss) before tax		4,420	(13,232)
Income tax expense	12	(1,153)	(1,056)
Profit/(loss) for the year		3,267	(14,288)
Attributable to:			
Equity holders of the Company		2,594	(16,204)
Minority interests		673	1,916
Profit/(loss) for the year		3,267	(14,288)
Earnings/(loss) per share attributable to equity holders of the Company during the year	14		
Basic		HK0.13 cents	HK(1.02 cents)
Diluted		HK0.13 cents	HK(1.02 cents)

All of the Group's activities are classified as continuing.

CONSOLIDATED BALANCE SHEET

As at 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	17,373	12,781
Prepaid land lease payments	*17*	3,498	3,371
Club membership	*19*	–	379
Goodwill	*20*	1,269	–
		22,140	16,531
Current assets			
Inventories	*22*	4,776	5,578
Financial assets at fair value through profit or loss	*25*	38,500	–
Trade receivables	*23*	36,910	32,103
Prepayments, deposits and other receivables	*24*	33,940	2,719
Pledged deposits	*26*	790	59
Cash and cash equivalents	*26*	91,400	3,458
		206,316	43,917
Current liabilities			
Trade and bills payables	*27*	13,039	17,929
Borrowings	*28*	31,793	27,522
Amounts due to directors	*29*	334	1,394
Accrued liabilities, deposits received and other payables	*30*	31,183	20,768
Tax payable		5,214	4,565
		81,563	72,178
Net current assets/(liabilities)		124,753	(28,261)
Net assets/(liabilities)		146,893	(11,730)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*31*	230,667	126,989
Reserves	*33*	(99,899)	(148,914)
		130,768	(21,925)
Minority interests		16,125	10,195
Total equity		146,893	(11,730)

BALANCE SHEET

As at 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	21	44,183	–
Current assets			
Cash and cash equivalents	26	62,994	51
Current liabilities			
Accrued liabilities and other payables		823	749
Amounts due to subsidiaries	21	28,239	27,094
		29,062	27,843
Net current assets/(liabilities)		33,932	(27,792)
Net assets/(liabilities)		78,115	(27,792)
EQUITY			
Share capital	31	230,667	126,989
Reserves	33	(152,552)	(154,781)
Total equity		78,115	(27,792)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2007

	Equity attributable to equity holders of the Company										
	Issued share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Share-based payment reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 October 2005	120,359	54,964	–	4	4,698	–	(13)	(192,670)	(12,658)	7,981	(4,677)
Issuance of new shares	6,630	–	–	–	–	–	–	–	6,630	–	6,630
Surplus realised upon disposal of revalued assets	–	–	–	–	(4,243)	–	–	4,243	–	–	–
Surplus arising on revaluation of buildings	–	–	–	–	311	–	–	–	311	298	609
Currency translation	–	–	–	–	–	–	(4)	–	(4)	–	(4)
Net income and expenses recognised directly in equity	–	–	–	–	311	–	(4)	–	307	298	605
Net profit/(loss) for the year	–	–	–	–	–	–	–	(16,204)	(16,204)	1,916	(14,288)
Total recognised income and expenses for the year	–	–	–	–	311	–	(4)	(16,204)	(15,897)	2,214	(13,683)
At 30 September 2006	126,989	54,964	–	4	766	–	(17)	(204,631)	(21,925)	10,195	(11,730)
At 1 October 2006	126,989	54,964	–	4	766	–	(17)	(204,631)	(21,925)	10,195	(11,730)
Issuance of new shares	103,678	47,535	–	–	–	–	–	–	151,213	–	151,213
Share issue expenses	–	(1,678)	–	–	–	–	–	–	(1,678)	–	(1,678)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	129	129
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	4,309	4,309
Share-based payment expenses	–	–	–	–	–	779	–	–	779	–	779
Surplus arising on revaluation of buildings	–	–	–	–	852	–	–	–	852	819	1,671
Currency translation	–	–	–	–	–	–	(1,067)	–	(1,067)	–	(1,067)
Net income and expenses recognised directly in equity	–	–	–	–	852	779	(1,067)	–	564	819	1,383
Net profit for the year	–	–	–	–	–	–	–	2,594	2,594	673	3,267
Total recognised income and expenses for the year	–	–	–	–	852	779	(1,067)	2,594	3,158	1,492	4,650
At 30 September 2007	230,667	100,821	–	4	1,618	779	(1,084)	(202,037)	130,768	16,125	146,893

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 September 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		4,420	(13,232)
Adjustments for:			
Interest income		(905)	(47)
Share-based payment expenses		779	–
Loss on disposal of property, plant and equipment		–	4,634
Loss on disposal of golf club memberships		–	143
Depreciation of property, plant and equipment		2,185	3,142
Amortisation of intangible assets		–	193
Amortisation of prepaid land lease payments		78	73
Club membership written-off		379	–
Property, plant and equipment written-off		496	–
Allowance of obsolete stock		431	–
Finance costs		2,690	2,455
Fair value change in financial assets at fair value through profit or loss		(11,278)	–
Impairment loss on trade receivables		2,409	–
Impairment loss on trade receivables written back		(1,509)	(1,284)
Impairment loss on amounts due from related companies		–	2,250
Operating profit/(loss) before working capital changes		175	(1,673)
Decrease/(increase) in inventories		802	(1,135)
Increase in trade receivables		(5,707)	(11,824)
Decrease in rental deposits		–	114
(Increase)/decrease in prepayments, deposits, and other receivables		(31,221)	2,921
Decrease in amounts due from related companies		–	378
Decrease in amounts due to directors		(1,060)	(82)
Decrease in trade and bills payables		(4,890)	(12,936)
Increase in accrued liabilities, deposits received and other payables		10,415	1,041
Cash used in operations		(31,486)	(23,196)
Interest paid		(2,690)	(2,455)
Income tax paid in the PRC		(392)	(604)
Net cash outflow from operating activities		(34,568)	(26,255)

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		905	47
Purchase of property, plant and equipment		(4,870)	(351)
Proceeds from disposal of property, plant and equipment		–	1,388
Proceeds from disposal of golf club membership		–	237
Purchase of financial assets at fair value through profit or loss		(27,222)	–
Proceeds from acquisition of interest in a subsidiary		(1,140)	–
(Increase)/decrease in pledged deposits		(731)	5,034
Net cash (outflow)/inflow from investing activities		(33,058)	6,355
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of bank loans		19,656	15,506
Drawdown of other loans		12,158	12,093
Repayment of bank loans		(15,784)	(5,491)
Repayment of other loans		(11,737)	(4,859)
Net proceeds from issue of new shares		149,535	6,630
Net cash inflow from financing activities		153,828	23,879
Net increase in cash and cash equivalents		86,202	3,979
Cash and cash equivalents at beginning of year		3,458	1,230
Effect of foreign exchange rates, net		1,740	(1,751)
Cash and cash equivalents at end of year		91,400	3,458
Analysis of balances of cash and cash equivalents Cash and bank balances	*26*	91,400	3,458

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2007

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The address of its registered office is located at Huntlaw Building, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is Unit 2201A, 22/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are sale and distribution of telecommunication equipment, sale of network management software and manufacturing and sale of communication cables and optical cables, which is set out in note 21.

The consolidated financial statements on pages 21 to 70 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The consolidated financial statements for the year ended 30 September 2007 were approved and authorised for issued by the board of directors on 21 December 2007.

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations, which are either effective for annual accounting periods beginning on or after 1 January 2006. A summary of the new HKFRSs adopted by the Group is set out as follows:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

The adoption of the above new and revised standards, amendments and interpretations did not result in substantial changes to the Group's accounting policies and did not result in significant impact to the Group's result and financial position.

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

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

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 23 (Revised)	Borrowing Costs [2]
HKFRS 7	Financial Instruments – Disclosures [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment [3]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [4]
HK(IFRIC) – Int 12	Service Concession Arrangements [5]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [6]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction [5]

HKAS 1 (Amendment) will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any noncompliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations upon initial application. So far, it has concluded that the adoption of HKAS 1 (Amendment) and HKFRS 7 may result in new or amended disclosures, these new standards and amendments should have no significant impact on the results and financial position of the Group.

Notes:

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 November 2006
4 Effective for annual periods beginning on or after 1 March 2007
5 Effective for annual periods beginning on or after 1 January 2008
6 Effective for annual periods beginning on or after 1 July 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(b) Basis of consolidation

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

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in subsidiaries

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

(d) Foreign currencies

The consolidated financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

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

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

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

(e) Revenue recognition

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

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

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

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

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

(iv) the intangible asset can be reliably measured.

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

(g) Goodwill

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

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

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

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

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

(i) Prepaid land lease payments

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

(j) Impairment of assets

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

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

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

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

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

(k) Leases

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

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

(l) Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

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 trade receivables, prepayments, deposits and other receivables, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables and not held for trading purpose. 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 income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse through income statement in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities (including trade and bills payable, amounts due to directors, accrued liabilities, deposits received and other payables) are subsequently measured at amortised cost, using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derecognition

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

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

(m) Inventories

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

(n) Income taxes

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

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

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

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

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

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

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

(o) Cash and cash equivalents

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

(p) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(q) Pension scheme and other retirement benefits

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

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

(r) Share-based employee compensation

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

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

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

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

(s) Provisions and contingencies

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

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

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

(t) Related parties

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

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

(ii) the party is an associate;

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

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

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

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation of property, plant and equipment

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

(b) Impairment of trade receivables

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

(c) Allowance for impairment of inventories

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

(d) Land and building

As described in note 16, land and buildings are stated at fair values based on the valuation performed by independent professional valuers. In determining the fair values, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised their judgment and is satisfied that the method of valuation is reflective of the current market conditions. Should there are any changes in assumptions due to change of market conditions, the fair values of the land and buildings will change in future.

(e) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was approximately HK$1,269,000 and no impairment loss was recognised during the current year (2006: Nil). Details of the impairment test for goodwill are provided in note 20.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rate and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management.

(a) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet or in the notes to the financial statements. Credit risk, therefore, is only disclosed in the circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's bank deposits are mainly deposited with banks in Hong Kong and the PRC.

The Group has concentration of credit risk due to its relatively small customer base. The Group performs ongoing credit evaluation of its customers' financial positions. Provision for impairment is based upon a review of the expected collectibility of all receivables.

(b) Price risk

The Group's financial assets at fair value through profit or loss are listed securities and thus measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk and the management will monitor the price movements of such financial assets and take appropriate actions when they are required.

(c) Foreign currency risk

The Group is mainly exposed to foreign exchange risk arising from the exposure of RMB against Hong Kong Dollar. The Group does not hedge its foreign currency risks, as the management of the Group does not expect any significant movements in the exchange rate between RMB and Hong Kong Dollar.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity.

(e) Interest rate risk

The Group has variable-rate borrowing (including secured bank loans and unsecured other loans) and is therefore exposed to cash flow interest rate risk (see note 28 for details of these borrowings). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

7. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

8. SEGMENT INFORMATION

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

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

Summary details of the business segments are as follows:

(a) the telecommunications network infrastructure solutions segment consists of the sale of the broadband data network information platform developed by the Group as well as the integration of third-party software and hardware for telecommunications sectors;

(b) the network management solutions segment consists of the sale of network management software for telecommunications sectors;

(c) the other network solutions for sectors other than telecommunications segment consists of the design, implementation and maintenance of network systems for customers in sectors other than telecommunications sectors;

(d) the transmission segment consists of the manufacturing and sale of communication cables and optical cables, primarily for communications sectors; and

(e) the corporate and other segment consists of the Group's investment holding, corporate assets and liabilities items.

(f) the securities investment and trading consists of Group's investment in securities and trading of investment securities.

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

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

(a) Business segments

The following tables present revenue, result and certain asset, liability and expenditure information for the Group's business segments.

The Group

	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Securities investments and trading		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:												
Sales to external customers	–	–	–	–	–	308	106,369	70,705	–	–	106,369	71,013
Segment results	(8,128)	(10,375)	(2,154)	(3,656)	(979)	(2,567)	726	1,026	7,887	–	(2,648)	(15,572)
Unallocated income and gains											10,537	4,795
Unallocated expenses											(779)	–
Profit/(loss) from operating activities											7,110	(10,777)
Finance costs											(2,690)	(2,455)
Profit/(loss) before income tax											4,420	(13,232)
Income tax expense											(1,153)	(1,056)
Profit/(loss) for the year											3,267	(14,288)

The following tables present revenue, result and certain asset, liability and expenditure information for the Group's business segments.

The Group

	Telecommunications network infrastructure solutions		Network management solutions		Other network solutions for sectors other than telecommunications		Transmission		Securities investments and trading		Corporate and other		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	11,260	1,272	344	930	27	34	77,907	56,175	38,985	–	–	–	128,523	58,411
Unallocated assets											99,933	2,037	99,933	2,037
Total asset													228,456	60,448
Segment liabilities	10,363	9,954	8,799	15,372	2,047	2,141	12,191	34,734	3,390	–	–	–	36,790	62,201
Unallocated liabilities											44,773	9,977	44,773	9,977
Total liabilities													81,563	72,178
Other segment information:														
Depreciation of property, plant and equipment	194	898	310	685	5	36	1,676	1,508	–	–	–	15	2,185	3,142
Amortisation of prepaid land lease payments	–	–	–	–	–	–	78	73	–	–	–	–	78	73
Share-based payment expenses	–	–	–	–	–	–	–	–	–	–	779	–	779	–
Surplus arising on revaluation of buildings – recognised directly in equity attributable to equity holder	–	–	–	–	–	–	852	311	–	–	–	–	852	311
Amortisation of deferred development cost	–	–	–	193	–	–	–	–	–	–	–	–	–	193
Reversal of Impairment loss on trade receivables	(134)	–	–	–	–	–	(1,375)	–	–	–	–	–	(1,509)	–
Impairment loss on trade receivables	314	–	–	–	–	–	2,095	–	–	–	–	–	2,409	–
Impairment loss on other receivables	–	498	–	159	–	–	–	–	–	–	–	–	–	657
Impairment loss on amount due from related companies	–	922	–	1,328	–	–	–	–	–	–	–	–	–	2,250
Property, plant and equipment written-off	–	–	496	–	–	–	–	–	–	–	–	–	496	–
Allowance for obsolete inventories	–	–	–	–	–	–	431	–	–	–	–	–	431	–
Loss on disposal of property, plant and equipment	–	4,634	–	–	–	–	–	–	–	–	–	–	–	4,634
Club membership written-off	–	–	–	–	–	–	–	–	–	–	379	–	379	–
Loss on disposal of golf club membership	–	–	–	–	–	–	–	–	–	–	–	143	–	143
Capital expenditure	–	–	2,574	–	–	–	2,296	351	–	–	–	–	4,870	351

(b) Geographical segments

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

9. OTHER REVENUE AND INCOME

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Other revenue:		
Bank interest income	905	47
Allowance and others	3,071	3,464
	3,976	3,511
Other income:		
Fair value changes in financial assets at fair value through profit or loss	11,278	–
Reversal of impairment loss on trade receivables	1,509	1,284
Provision for penalty written back	5,052	–
	17,839	1,284
	21,815	4,795

10. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations is arrived at after charging:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cost of inventories sold and services provided	94,293	61,262
Depreciation of property, plant and equipment	2,185	3,142
Amortisation of prepaid land lease payments	78	73
Research and development costs:		
Deferred development costs amortised *	–	193
Minimum lease payments under operating leases in respect of land and buildings	141	363
Auditors' remuneration	350	400
Staff costs (including directors' emoluments *(note 15)*):		
Wages and salaries	6,021	5,595
Pension scheme contributions	12	17
	6,033	5,612

	The Group 2007 HK$'000	2006 HK$'000
Impairment loss on trade receivables *	2,409	–
Impairment loss on amounts due from related companies *	–	2,250
Impairment loss on other receivables *	–	657
Allowance for obsolete inventories *	431	–
Club membership written off *	379	–
Property, plant and equipment written off *	496	–
Loss on disposal of property, plant and equipment *	–	4,634
Loss on disposal of golf club membership *	–	143
Share-based payment expenses*	779	–

* *Included in "Other operating expenses" on the face of the consolidated income statement.*

11. FINANCE COSTS

	The Group 2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable within five years	1,596	1,770
Interest on other loans wholly repayable within five years	1,094	685
	2,690	2,455

12. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profit assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during both years.

	The Group 2007 HK$'000	2006 HK$'000
Current tax – the PRC		
Charge for the year	1,153	1,056

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax (expense) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

The Group – Year ended 30 September 2007

	Hong Kong		The PRC		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
(Loss)/profit before tax	(1,071)		5,491		4,420	
Tax at the statutory tax rate	(187)	(17.5)	1,812	33.0	1,625	36.7
Tax effect of expenses not deductible for tax purpose	795	74.2	319	5.8	1,114	25.2
Tax effect of income not taxable for tax purpose	(2,129)	(198.7)	(1,396)	(25.4)	(3,525)	(79.7)
Tax effect of tax losses not recognised	1,521	142.0	418	7.6	1,939	43.9
	–	–	1,153	21.0	1,153	26.1

The Group – Year ended 30 September 2006

	Hong Kong		The PRC		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before tax	(11,711)		(1,521)		(13,232)	
Tax at the statutory tax rate	(2,050)	(17.5)	(502)	(33.0)	(2,552)	(19.3)
Tax effect of expenses not deductible for tax purpose	850	7.3	472	31.0	1,322	10.0
Tax effect of income not taxable for tax purpose	(8)	(0.1)	(899)	(59.1)	(907)	(6.9)
Tax effect of tax losses not recognised	1,208	10.3	1,985	130.5	3,193	24.1
	–	–	1,056	69.4	1,056	7.9

At the balance sheet date, the Group has tax losses of approximately HK$109,955,000 (2006: HK$99,997,000) that are available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profit will available against which these unused tax losses can be utilised.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders includes a loss of HK$43,629,000 (2006: HK$33,497,000) which has been dealt with in the financial statements of the Company.

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

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to equity holders of the Company of HK$2,594,000 (2006: a loss of HK$16,204,000) and the weighted average of 1,922,211,977 (2006: 1,594,393,347) ordinary shares in issue during the year.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Profit/(loss) attributable to equity holders of the Company	2,594	(16,204)

	2007	**2006**
Weighted average number of ordinary shares in issue	1,922,211,977	1,594,393,347
Adjustment for assumed exercise of share options	3,335,246	–
	1,925,547,223	1,594,393,347

The computation of diluted loss per share for the year ended 30 September 2006 did not assume the exercise of the Company's share options because the effect of exercising an option to subscribe for an additional share in the Company would result in a decrease of loss per share.

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

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	312	248
	312	248
Other emoluments of executive directors salaries, allowances and benefits in kind	2,466	1,565
	2,778	1,813

The emoluments of each director, on a named basis for the year ended 30 September 2007 and 2006 are set out below:

	For the year ended 30 September 2007					
	Director Fees	**Salaries allowances and benefits in kind**	**Discretionary bonus**	**Lump sum ex-gratia payment**	**Pension scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors:						
Liu Yang	120	–	–	–	–	120
Li Jun Lin	96	–	–	–	–	96
Jin Dun Shen	96	–	–	–	–	96
	312	–	–	–	–	312
Non-executive director:						
Yukihiko Izutsu*	–	–	–	–	–	–
	–	–	–	–	–	–
Executive directors:						
Wu Shu Min	–	1,873	–	–	–	1,873
Xu Zhi Feng	–	492	–	–	–	492
Fu Hui Zhong**	–	101	–	–	–	101
	–	2,466	–	–	–	2,466
Total – 2007	312	2,466	–	–	–	2,778

* *resigned during the year ended 30 September 2007*

** *appointed during the year ended 30 September 2007*

	For the year ended 30 September 2006					
	Director Fees	allowances and benefits in kind	Discretionary bonus	Lump sum ex-gratia payment	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Independent non-executive directors:						
Liu Yang	96	–	–	–	–	96
Li Jun Lin^^	80	–	–	–	–	80
Jin Dun Shen^^	72	–	–	–	–	72
	248	–	–	–	–	248
Non-executive directors:						
Chang Ye Min, William^	–	–	–	–	–	–
Leong Ka Cheong, Christopher^	–	–	–	–	–	–
Wang Qian^	–	–	–	–	–	–
Yukihiko Izutsu^^	–	–	–	–	–	–
	–	–	–	–	–	–
Executive directors:						
Wu Shu Min	–	1,440	–	–	–	1,440
Xu Zhi Feng^^	–	125	–	–	–	125
Chang Xiao Hui^	–	–	–	–	–	–
Li Jun Chao^	–	–	–	–	–	–
Jin Feng^	–	–	–	–	–	–
	–	1,565	–	–	–	1,565
Total – 2006	248	1,565	–	–	–	1,813

^ *resigned during the year ended 30 September 2006*

^^ *appointed during the year ended 30 September 2006*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 September 2007 and 2006.

During the years ended 30 September 2007 and 2006, no share options were granted to the directors in respect of their services to the Group. The details of the share option schemes were set out in note 32 to the financial statements.

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2006: two) directors, details of whose emoluments are disclosed above. The emoluments paid to the remaining three (2006: three) non-director, highest paid individuals for the year are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Salary, allowances and benefits in kind	878	1,130
Pension scheme contributions	12	12
Share-based payment expenses	779	–
	1,669	1,142

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

	2007	**2006**
Nil – HK$1,000,000	3	3

During the years ended 30 September 2007 and 2006, no emoluments were paid by the Group to the directors or any of the five highest paid employees of the Group as an inducement to join the Group or upon joining the Group, or as compensation for loss of office.

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Leasehold buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2005									
Cost or valuation	–	22,917	1,355	1,830	10,146	12,426	4,590	3,029	56,293
Accumulated depreciation	–	–	(207)	(1,516)	(2,792)	(11,694)	(4,539)	(2,412)	(23,160)
Net book amount	–	22,917	1,148	314	7,354	732	51	617	33,133
Year ended 30 September 2006									
Opening net book amount	–	22,917	1,148	314	7,354	732	51	617	33,133
Additions	317	–	–	–	34	–	–	–	351
Depreciation	–	(556)	(26)	(191)	(1,050)	(868)	(208)	(243)	(3,142)
Revaluation	–	609	–	–	–	–	–	–	609
Disposal	–	(18,300)	(1,176)	(137)	–	(32)	(1)	(101)	(19,747)
Exchange alignment	–	–	54	14	295	882	301	31	1,577
Closing net book amount	317	4,670	–	–	6,633	714	143	304	12,781
At 30 September 2006									
Cost or valuation	317	4,670	–	235	10,677	7,208	2,013	1,978	27,098
Accumulated depreciation	–	–	–	(235)	(4,044)	(6,494)	(1,870)	(1,674)	(14,317)
Net book amount	317	4,670	–	–	6,633	714	143	304	12,781
Year ended 30 September 2007									
Opening net book amount	317	4,670	–	–	6,633	714	143	304	12,781
Additions	1,943	–	–	–	258	54	41	2,574	4,870
Depreciation	–	(171)	–	–	(1,402)	(346)	(48)	(218)	(2,185)
Write-off	–	–	–	–	–	(339)	(143)	(14)	(496)
Revaluation	–	1,671	–	–	–	–	–	–	1,671
Exchange alignment	19	240	–	–	403	43	9	18	732
Closing net book amount	2,279	6,410	–	–	5,892	126	2	2,664	17,373
At 30 September 2007									
Cost or valuation	2,279	6,410	–	249	11,584	7,361	2,033	4,658	34,574
Accumulated depreciation	–	–	–	(249)	(5,692)	(7,235)	(2,031)	(1,994)	(17,201)
Net book amount	2,279	6,410	–	–	5,892	126	2	2,664	17,373

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

The Group's leasehold buildings were revalued individually at the balance sheet date by RHL Appraisal Limited, independent professional qualified valuers, at an aggregate of HK$6,410,000 (2006: HK$4,670,000). During the year, no leasehold land and buildings was disposed, while in the last year, one of the leasehold buildings with a carrying amount of HK18,300,000 was disposed of to settle a bank loan. The remaining building was revalued to approximately HK$6,410,000 and a revaluation surplus of HK$1,671,000 (2006: surplus of HK$609,000), resulting from the above valuations, has been credited to the equity.

Had these leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$3,825,000 (2006: HK$3,996,000).

At 30 September 2007, the Group's leasehold buildings and plant and machinery with carrying values of approximately HK$6,410,000 (2006: HK$4,670,000) and HK5,892,000 (2006: HK$6,633,000) respectively, were pledged to secure general banking facilities granted to the Group (note 28).

The analysis of the cost or valuation at 30 September 2007 of the above assets is as follows:

	Construction in progress	Leasehold buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	2,279	–	–	249	11,584	7,361	2,033	4,658	28,164
At valuation	–	6,410	–	–	–	–	–	–	6,410
	2,279	6,410	–	249	11,584	7,361	2,033	4,658	34,574

The analysis of the cost or valuation at 30 September 2006 of the above assets is as follows:

	Construction in progress	Leasehold buildings	Lease rights on medium term leases of properties	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	317	–	–	235	10,677	7,208	2,013	1,978	22,428
At valuation	–	4,670	–	–	–	–	–	–	4,670
	317	4,670	–	235	10,677	7,208	2,013	1,978	27,098

17. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent upfront payments to acquire interests in the usage of land situated in the PRC, which are held under medium term leases.

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Outside Hong Kong held on:		
– Leases of between 10 to 50 years	3,498	3,371

The above land use rights were pledged to secure bank loans (note 28).

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cost:		
At beginning of the year	3,657	3,485
Exchange alignment	222	172
At end of the year	3,879	3,657
Accumulated amortisation:		
At beginning of the year	286	202
Charge for the year	78	73
Exchange alignment	17	11
At end of the year	381	286
Net book value		
At 30 September	3,498	3,371

18. INTANGIBLE ASSETS

The Group

	Deferred development costs
	HK$'000
At 1 October 2005	
Cost	6,284
Accumulated amortisation	(6,100)
Net book amount	184
Year ended 30 September 2006	
Opening net book amount	184
Amortisation	(193)
Exchange alignment	9
Closing net book amount	–
At 30 September 2006	
Cost	6,285
Accumulated amortisation	(6,285)
Net book amount	–
Year ended 30 September 2007	
Opening net book amount and closing net book amount	–
At 30 September 2007	
Cost	6,285
Accumulated amortisation	(6,285)
Net book amount	–

The Group's deferred development costs were amortised over the useful life of not exceeding five years.

19. CLUB MEMBERSHIP

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Golf club membership *(Note)*	–	379

Note: The club membership represents memberships of a golf club in Beijing, the PRC, held by the Group. The membership is perpetual and freely transferable.

As at 30 September 2007, the directors of the Company reassessed the recoverable amount of the club membership. In the opinion of the directors of the Company, the full amount of HK$379,000 was impaired.

20. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	The Group
	HK$'000
At 1 October 2005	36,468
Accumulated impairment loss	(36,468)
Net carrying amount	–
Year ended 30 September 2006	
Opening net carrying amount	–
Impairment loss	–
Closing net carrying amount	–
At 30 September 2006	
Gross carrying amount	36,468
Accumulated amortisation and impairment losses	(36,468)
Net carrying amount	–
Year ended 30 September 2007	
Opening net carrying amount	–
Addition *(Note)*	1,269
Impairment loss	–
Closing net carrying amount	1,269
At 30 September 2007	
Gross carrying amount	37,737
Accumulated impairment losses	(36,468)
Net carrying amount	1,269

Note:

The balance represents the goodwill arising from acquisition of remaining 3% of Hunan IIN International Co., Ltd (湖南國訊國際網絡有限公司) ("Hunan IIN") at 30 June 2007 at cash consideration of HK$1,140,000.

Impairment test for goodwill

Goodwill arising from acquisition of Hunan IIN is allocated to the Group's acquired business of the designing, production processing, research and development of environment protection related facilities segment (note 39(a)). The recoverable amount is determined based on the value-in-use calculations. These calculation use cash flow projects based on financial budgets covering a one-year period. Cash flow beyond one-year period is extrapolated using the estimated rate stated below. The growth rate is made by reference to National Bureau of Statistics of China and does not exceed the long-term average growth rate for the business in which the business segment operates.

Key assumptions used for value-in-use calculation of discount rate and growth rate are 15% and 5% respectively.

21. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	43,437	43,437
Amounts due from subsidiaries	234,197	146,750
Amounts due to subsidiaries	(28,239)	(27,094)
	249,395	163,093
Impairment losses recognised	(233,451)	(190,187)
	15,944	(27,094)
Amounts due to subsidiaries classified as current liabilities	(28,239)	(27,094)
	44,183	–

As at 30 September 2007 and 2006, the balances with subsidiaries are unsecured, interest-free and repayable on demand. Accordingly, the amounts are classified as current.

The directors of the Company consider that the carrying amounts of the Company's amounts due to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
II Networks International Limited	BVI	16,666,667 ordinary shares of US$0.01 each	100	–	Investment holding
IIN Network Technology Limited	Hong Kong	400,000,000 ordinary shares of HK$0.005 each	–	100	Investment holding and overseas trading
Far High International Limited	BVI	1 ordinary shares of US$1 each	–	100	Investment holding
Hunan IIN Technologies Engineering Co., Limited#	the PRC	US$1,300,000	–	100	Sale and distribution of telecommunication equipment
Hunan IIN-Galaxy Software Development Company Limited##	the PRC	RMB5,000,000	–	100	Network management solutions related business
Hunan IIN International Company Limited##	the PRC	HK$38,000,000	–	100	Other network solutions related businesses
Hubei IIN-Galaxy Network Co., Limited###	the PRC	RMB3,000,000	–	100	Other network solutions related businesses
Beijing IIN Data Network Technology Company Limited##	the PRC	RMB3,000,000	–	60	Data communications (including IP network management and monitoring system) and network infrastructure related business
Hunan Modern Time Technology Limited#	the PRC	RMB5,500,000	–	100	Communication network system related business
Wujiang Shengxin Optoelectronics Technology Co., Limited##	the PRC	RMB22,350,000	–	51	Manufacturing and sale of communication cables and optical cables
Chengdu TM Network Corporation#	the PRC	RMB30,000,000	–	51	Telecom network management

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

\## *registered as Sino-foreign joint ventures under the PRC law.*

\### *registered as a limited liability company under the PRC law.*

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

22. INVENTORIES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	345	667
Finished goods	4,431	4,911
	4,776	5,578

No inventories are carried at net realisable value (2006: Nil).

23. TRADE RECEIVABLES

An aged analysis of the Group's net trade receivables as at the balance sheet date is as follow:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 – 90 days	26,265	19,061
91 – 180 days	10,117	6,997
181 – 365 days	528	5,741
Over 365 days	–	304
	36,910	32,103

The Group has a policy of allowing trade customers with credit terms pursuant to the provisions of the relevant contracts. The carrying amounts of the trade receivables are denominated in RMB. The directors of the Company consider that the carrying amounts of trade receivables approximate to their fair values.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Prepayments	3,870	1,196
Deposits	22,080	–
Other receivables	7,990	1,523
	33,940	2,719

The directors of the Company consider that the carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss as at 30 September 2007 include:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
At fair value		
At the beginning of year	–	–
Addition	27,222	–
Fair value change	11,278	–
At the end of year	38,500	–

The fair values of the above financial assets at fair value through profit or loss are determined based on the quoted market bid prices available on the Stock Exchange.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		The Group		The Company	
		2007	**2006**	**2007**	**2006**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances		92,190	3,517	62,994	51
Less: Pledged deposits for construction of buildings	*37*	(62)	–	–	–
Pledged deposits for bills payable repayable within one year	*28*	(728)	(59)	–	–
Cash and cash equivalents		91,400	3,458	62,994	51

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

The pledged deposit represents deposit pledged to banks and other financial institutions to secure credit facilities granted to the Group. Deposit amounting to HK$728,000 (2006: HK$59,000) have been pledged to secure bills payable repayment. Other deposit amounting to HK$62,000 (2006: Nil) have been pledged to secure the construction of building.

As at 30 September 2007, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$17,307,000 (2006: HK$1,974,000), which were deposits with banks in the PRC. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. TRADE AND BILLS PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. An aged analysis of the trade and bills payables as at the balance sheet date, is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 – 90 days	2,732	920
91 – 180 days	2,892	3,062
181 – 365 days	641	645
Over 365 days	6,774	13,302
	13,039	17,929

The directors of the Company consider that the carrying amounts of trade and bills payables approximate to their fair values.

28. BORROWINGS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Repayable within 1 year:		
Secured bank loans	19,656	14,608
Unsecured other loans	12,137	12,914
	31,793	27,522

As at 30 September 2007, the Group's secured bank loans and other bank facilities were secured by i) charges on the Group's bank deposits of approximately HK$728,000, ii) legal charges on the Group's leasehold land, buildings, and plant and machinery with carrying values of approximately HK$3,498,000, HK$6,410,000 and HK$5,892,000 respectively, and iii) guarantees by a director of a subsidiary of the Company and 蘇州鼎盛擔保投資有限公司.

As at 30 September 2006, the Group's secured bank loans and other bank facilities were secured by i) charges on the Group's bank deposits of approximately HK$59,000, ii) legal charges on the Group's leasehold land, buildings, and plant and machinery with carrying values of approximately HK$3,371,000, HK$4,670,000 and HK$6,633,000 respectively; and iii) guarantees by a director of a subsidiary of the Company and 蘇州鼎盛擔保投資有限公司.

All bank loans of the Group were fixed interest rate bank loans with maturity date on or before the end of April 2008. The interest rates of the Group's bank loans ranged from 5.61% to 7.46% (2006: 7.25% to 10.88%) per annum.

The other loans of the Group were unsecured, bearing interest ranged at 12% (2006: 7.25% to 12%) per annum and were repayable on demand.

As at 30 September 2007, the balances of the other loans included the borrowing's of approximately HK$645,000 from certain directors of the subsidiaries of the Company. The interest expenses incurred to these directors of the Company's subsidiaries during the year amounted to HK$9,000.

All of the borrowings were denominated in RMB.

29. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the carrying amounts of the amounts due to directors approximate to their fair values.

30. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Accrued liabilities	9,411	5,379
Deposits received	663	829
Other payables	21,109	14,560
	31,183	20,768

The directors of the Company consider that the carrying amounts of the accrued liabilities, deposits received and other payables approximate to their fair values.

31. SHARE CAPITAL

The Group and the Company

	Number of shares		Par value			
	2007	**2006**	**2007**		**2006**	
	'000	*'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Authorised:						
Ordinary shares of US$0.01 each	5,000,000	2,000,000	50,000	390,000	20,000	156,000
Issued and fully paid:						
At the beginning of the year	1,628,160	1,543,160		126,989		120,359
Issuance of ordinary share of US$0.01 each *(Note e)*	–	85,000		–		6,630
Placing of shares *(Note b & c)*	1,325,600	–		103,397		–
Exercise of share options *(Note d)*	3,600	–		281		–
At the end of the year	2,957,360	1,628,160		230,667		126,989

Note:

(a) As per the resolution passed by the shareholders of the Company at the extraordinary general meeting on 4 July 2007, it was resolved that the increase of the authorised share capital of the Company from US$20,000,000 divided into 2,000,000,000 shares of US$0.01 each to US$50,000,000 divided into 5,000,000,000 share of US$0.01 each by the creation of an additional of 3,000,000,000 shares of US$0.01 each.

(b) On 14 May 2007, the Company entered into the placing agreement with the placing agent (the "Placing Agent"). Pursuant to the placing agreement, the Company has conditionally agreed to place an aggregate of 325,600,000 placing shares (the "Placing Shares"), through the placing agent, on a best endeavour basis, to not fewer than six placees at a price of HK$0.095 per placing share (the "Placing"). The gross proceeds from the Placing will be approximately HK$30.9 million and the net proceeds after deducting the related placing fee, professional fees and all other related expenses incurred in connection with the Placing, which will be borne by the Company, are expected to be approximately HK$30 million, representing a net Placing price of approximately HK$0.092 per Placing Share. The Company intends to apply the net proceeds for general working capital purpose.

(c) On 5 June 2007, the Company and the Placing Agent entered into a Placing Agreement to place, on a best effort basis, initially a total of 700,000,000 new shares (before the exercise of the Over-Allotment Option) at the Placing Price of HK$0.12 per Placing Share. Under the Placing Agreement, the Company has also granted the Placing Agent the Over-Allotment Option pursuant to which the Placing Agent may require the Company to issue up to an additional 300,000,000 new Shares at the Placing Price. The net proceeds from the Placing amounting to approximately HK$118 million of which approximately HK$80 million was intended to be used for the development of the existing business of the Group and the remaining balance was for the general working capital.

(d) During the year ended 30 September 2007, 3,600,000 share options were exercised, in which 600,000, 1,000,000 and 2,000,000 share options were exercised at HK$0.078 at par value.

(e) During the year ended 30 September 2006, the Company entered into a subscription agreement with an independent subscriber pursuant to which the subscriber subscribed 85,000,000 ordinary shares of US$0.01 each of the Company at a subscription price of HK$0.078 per share. The subscription of new shares raised total consideration of HK$6,630,000.

32. SHARE OPTION SCHEME

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

(a) Pre-IPO Share Option Plan

On 7 January 2000, the Company adopted an employee share option plan (the "Pre-IPO Share Option Plan"). The Pre-IPO Share Option Plan was valid and effective for a period not exceeding eight years commencing from 7 January 2000.

Under the Pre-IPO Share Option Plan, the grantees may include (a) any full-time employee and director (including non-executive director and independent non-executive director) of the Company or any of its subsidiaries; (b) any part-time employee with weekly working hours of 15 hours and above of the Company or any of its subsidiaries; (c) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (d) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

The offer of a grant of share options may be accepted within 21 days from the date of the offer with no consideration being payable by the grantee.

The share subscription price in respect of any particular option granted under the Pre-IPO Share Option Plan was determined by the board of directors from time to time. The maximum number of shares in respect of the options granted under the Pre-IPO Share Option Plan in an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, excluding for this purpose shares issued upon the exercise of options granted under the Pre-IPO Share Option Plan. At 30 September 2007, the number of shares issuable under share options granted under the Pre-IPO Share Option Plan was 15,000,000 which represented approximately 0.5% of the Company's shares in issue as at that date.

Upon listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001, no further share options will be granted under the Pre-IPO Share Option Plan.

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

Director	As at 1 October 2006	Exercised during the year	Cancelled during the year	Lapsed during the year	As at 30 September 2007	Date of grant of share options	Exercise period of share options	Adjusted exercise price per share*
	Number of share options outstanding under the Pre-IPO Share Option Plan							
								HK$
Mr. Wu Shu Min	5,000,000	–	–	–	5,000,000	7 January 2000	7 January 2000 to 6 January 2008	0.150
	10,000,000	–	–	–	10,000,000	26 February 2000	26 February 2000 to 25 February 2008	0.150
	15,000,000	–	–	–	15,000,000			

* *The exercise price per share was adjusted for the consolidation and capitalisation issue of the Company's shares on 22 November 2001, as well as conversion from US$ to HK$.*

(b) Share Option Plan

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

Under the Share Option Plan, the grantees may include (i) any full-time employee, director (including non-executive director and independent non-executive director) and part-time employee with weekly working hours of 15 hours and above of the Company and any of its subsidiaries; (ii) any advisor or consultant (in the areas of technical, financial or corporate managerial) to the Company or any of its subsidiaries; and (iii) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

No option may be granted to any one person which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding one percent of the number of the shares of the Company in issue in any 12-month period up to the date of grant. Any further grant of options in excess of the one percent limit must be subject to shareholders' approval, with that participant and his associates abstaining from voting.

The maximum number of shares in respect of which options may be granted under the Share Option Plan and any other share option scheme of the Company is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, excluding for this purpose shares issued upon the exercise of options granted under the Share Option Plan or any other share option scheme. At 30 September 2007, the number of shares issuable under share options granted under the Share Option Plan was 27,300,000, which represented approximately 0.9% of the Company's shares in issue as at that date. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan and any other schemes must not exceed 30% of the shares of the Company from time to time.

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

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

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

Directors	As at 1 October 2006	Number of share options outstanding under Share Option Plan Granted during the year	Exercised during the year	Lapsed during the year	As at 30 September 2007	Date of grant of share options	Exercise period of share options	Exercise price of share options	Company's share price at the date immediately before the grant date of options
								HK$	*HK$*
Mr. Wu Shu Min	10,000,000	–	–	–	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.455
	3,000,000	–	–	–	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
Mr. Xu Zhi Feng#	1,000,000	–	–	–	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	14,000,000	–	–	–	14,000,000				
Other employees									
In aggregate	800,000	–	–	–	800,000	1 March 2002	1 March 2002 to 21 December 2011	0.475	0.470
	3,600,000	–	(3,600,000)	–	–	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.045
	–	12,500,000	–	–	12,500,000	29 May 2007	29 May 2007 to 21 December 2011	0.214	0.214
	4,400,000	12,500,000	(3,600,000)	–	13,300,000				
	18,400,000	12,500,000	(3,600,000)	–	27,300,000				

\# *During the year ended 30 September 2006, Mr. Xu Zhi Feng was appointed as a director of the Company*

As at the balance sheet date, the Company had 15,000,000 share options outstanding under the Pre-IPO Share Option Plan.

As at the balance sheet date, the Company had 27,300,000 share options outstanding under the Share Option Plan.

The exercise in full of the outstanding share options under the Pre-IPO Share Option Plan and the Share Option Plan would, under the present capital structure of the Company, result in the issue of 42,300,000 additional ordinary shares and cash proceeds to the Company of approximately HK$10,267,000, before related issuing expense.

The fair value of the share options granted during the year ended 30 September 2007 is HK$0.155761. According to the Binomial Model, the value and adjusted value of the options granted during the year are as follows:

Date of grant:	29 May 2007
Total number of share options:	12,500,000
Option value:	HK$0.155761
Valuables	
– Maturity date	21 December 2011
– Risk free rate *(Note (i))*	4.321%
– Stock price at the date of grant	HK$0.214
– Exercise price	HK$0.214
– Volatility	96.84%
– Expected ordinary dividend	Nil

Note:

(i) Risk free rate was interpolated from the yields to maturity of respective Hong Kong Exchange Fund Note as at the date of grant.

33. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 24.

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

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

(b) The Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 October 2005	44,929	(166,213)	(121,284)
Net loss for the year	–	(33,497)	(33,497)
At 30 September 2006 and 1 October 2006	44,929	(199,710)	(154,781)
Issuance of new shares	47,535	–	47,535
Share issue expenses	(1,677)	–	(1,677)
Net loss for the year	–	(43,629)	(43,629)
At 30 September 2007	90,787	(243,339)	(152,552)

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

34. MAJOR NON-CASH TRANSACTIONS

The Group and the Company did not have any significant non-cash transactions for the year ended 30 September 2007.

At 30 September 2006, the Group was defaulted in repayment of bank loan of HK$13,725,000 and the pledged property of the Group with a carrying value of HK$18,300,000 was assigned to the bank for settlement of the bank loan.

35. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date (2006: Nil).

36. OPERATING LEASE ARRANGEMENTS

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

At 30 September 2007, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarter falling due as follows:

	The Group 2007 HK$'000	2006 HK$'000
Within one year	179	–

37. CAPITAL COMMITMENTS

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

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted but not provided for		
– Construction of building *(Note i)*	–	467
– Acquisition of a company *(Note ii)*	440,000	–

Notes:

(i) The construction of building was completed on 18 April 2007.

(ii) As at 30 July 2007, II Networks International Limited, a wholly-owned subsidiary of the Company, entered into an agreement with China Standard Limited to acquire entire equity interests in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited at an aggregate consideration of HK$440 million, which shall be satisfied as to (i) HK$80 million by cash; (ii) HK$200 million by the issue of the consideration shares; and (iii) HK$160 million by the issue of the convertible notes. Details of the acquisition are set out in the Company's circular dated 3 October 2007.

38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant related party transactions:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Amounts due from minority shareholders of subsidiaries *(i)*	3,771	706
Amounts due to directors *(ii)*	334	1,394

Note:

(i) Amounts due from minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Amounts due to directors are unsecured, interest-free and repayable on demand and are included in note 29.

(iii) In the opinion of the directors, the key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 15.

39. POST BALANCE SHEET EVENTS

(a) During the year ended 30 September 2007, II Networks International Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party ("the Purchaser") to acquire entire interests in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited at an aggregate consideration of HK$440 million, which shall be satisfied as to (i) HK$80 million by cash; (ii) HK$200 million by the issue of the consideration shares; and (iii) HK$160 million by the issue of the convertible notes. Details of the acquisition are set out in the Company's circular dated 3 October 2007 and this transaction was completed on 7 November 2007.

(b) On 11 September 2007, the Company entered into the Placing Agreement with the Placing Agent whereby the Company conditionally agreed to place an aggregate of 390,752,000 Placing Shares at the Placing Price of HK$0.198 per Placing Share, through the Placing Agent, on a best endeavour basis, to not less than six placees, who and whose ultimate beneficial owners are independent third parties of the Company and its connected persons. The Placing was completed on 9 October 2007. Details of the placing information are set out in the Company's announcement dated 19 September 2007 and 9 October 2007.

(c) Subsequent to the year end date, II Networks International Limited, a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with an independent third party in relation to the possible acquisition (the "Possible Acquisition") of equity interest of a company incorporated in the British Virgin Islands (the "Target Company"). The exact percentage of issued share capital of the Target Company to be acquired shall be subject to further negotiation. The Target Company is directly and indirectly holding a group of companies which are principally engaged in the research and development, usage of renewable ground-source energy as alternative energy sources for heating and cooling which would achieve energy saving, environmental protection, low-cost and safe operation for the use of new energy resources.

The consideration for the Possible Acquisition shall be approximately HK$704,000,000 and subject to further negotiations. Details of the Possible Acquisition are set out in the Company's announcement dated 5 November 2007."

3. MANAGEMENT DISCUSSION AND ANALYSIS

The following is the management and discussion analysis extracted from the annual reports of the Company for the year ended 30 September 2005, 2006 and 2007.

For the year ended 30 September 2005

"Financial Review

Turnover

Turnover for the fiscal year ended 30 September 2005 amounted to approximately HK$60.1 million compared with approximately HK$113.9 million last year, representing a drop of 47.2%. The decrease in turnover was attributable to the intense market competition and the conservative attitude adopted by the Group in selecting projects, while the businesses of the electronic payment platform (the "e-Pay") and "Enterprise IP Network Management and Maintenance Service Platform" (the "IP Service"), which are the Company's focus of development, failed to generate operating revenue due to the lack of funds, and the revenue from the transmission solutions by Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin") also declined substantially due to rising prices of copper.

Excluding the provisions of trade receivables and other receivables and inventories as well as impairment of goodwill totaling approximately HK$60.8 million (2004: approximately HK$24.7 million), the Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK$21.3 million during the year (2004: approximately HK$23.8 million). During the year, the Group remained committed to implementing cost control measures but the decrease in turnover during the year offset the effect of cost control measures taken.

Gross profit margin

Gross profit margin for the year under review was 14.2% which was the same as that of last year. During the year under review, the Group has taken cautious steps in setting its bidding prices and did not submit tenders for those projects with an unacceptable margin. Therefore, the Group was still able to achieve last year's gross profit margin but unavoidably recorded a decrease in turnover.

Sales and distribution costs and administrative expenses

Sales and distribution costs for the year under review totaled approximately HK$5.6 million (2004: approximately HK$9.3 million). Sales and distribution costs, as well as turnover of the Group decreased during the year.

Administrative expenses decreased to approximately HK$22.0 million in 2005 (2004: approximately HK$28.2 million). The decrease in administrative expenses was a result of the Group's concerted efforts to maximize operational efficiency and streamline operational expenses.

Segmental information

Turnover generated from providing network infrastructure solutions amounted to approximately HK$27.8 million, accounting for 46.3% of the turnover for the year under review (2004: approximately HK$51.7 million) and representing a decrease of 46.2%. The substantial decrease in the turnover of network infrastructure solutions, customarily the Group's principal source of revenue, was due to intense market competition.

Turnover generated from providing network management solutions decreased to approximately HK$0.86 million (2004: approximately HK$2.8 million), accounting for 1.4% of the turnover for the year under review. Turnover generated from providing other network solutions for customers in other market sectors in the PRC, primarily for governmental and corporate projects, was approximately HK$2.2 million, accounting for 3.6% of the turnover for the year under review (2004: approximately HK$14.5 million).

Turnover generated from the transmission solutions by Shengxin amounted to approximately HK$29.2 million, accounting for 48.7% of the turnover for the year under review (2004: approximately HK$44.9 million).

Order book

As at the date of this report, the Group has secured approximately HK$10.0 million worth of contracts on hand.

Financial resources and liquidity

Net current liabilities of the Group as at 30 September 2005 were approximately HK$42.2 million (2004: net current assets of approximately HK$8.4 million). As at 30 September 2005, the Group had short-term cash and bank deposits (including pledged deposits of HK$5.1 million) of approximately HK$6.3 million (2004: approximately HK$15.7 million). The decrease in the value of net current assets and cash and bank deposit balance was a result of the operating losses recorded during the year under review.

As at 30 September 2005, the Group's total bank and other borrowings repayable within one year or on demand amounted to approximately HK$24.0 million at fixed interest rates ranging from 5.04% p.a. to 8% p.a. (2004: approximately HK$36.5 million at fixed interest rates ranging from 5.04% p.a. to 8% p.a.).

Charge on Group assets

As at 30 September 2005, the Group's bank loans and other bank facilities were secured by charges on the Group's bank deposits of approximately HK$5,093,000 (2004: fixed deposits of approximately HK$11.1 million), and legal charges on the Group's leasehold land and buildings, plants and machinery and motor vehicles with carrying values of approximately HK$26.2 million (2004: approximately HK$27.2 million), approximately HK$4.3 million (2004: approximately HK$5.1 million) and HK$Nil million (2004: approximately HK$0.3 million) respectively.

Exposure to fluctuations in exchange rates

The Group continues to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong Dollars or in the local currencies of the places where the Group's subsidiaries are operating, to minimize its exposure to foreign exchange risks.

Gearing ratio

The Group's gearing ratio as at 30 September 2005 increased to 106.2% (2004: 55.1%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2005, the Group has had 175 employees including 138 employees of Shengxin and 8 employees of Chengdu TM Network Corporation ("Chengdu TM") as compared with 265 employees for the same period last year. The staff costs, including directors' emoluments, totaled approximately HK$10.3 million for the year under review (2004: approximately HK$13.3 million). During the year under review, the Group strived to streamline operations and keep the costs under control so that the number of employees (excluding the employees of Shengxin and Chengdu TM) and the amount of staff costs could be reduced.

The Group's remuneration and bonus policies are basically determined by the performance of individual employee.

Share option schemes

The Group has adopted two share option schemes whereby some directors and employees of the Group may be granted an option to subscribe for the shares of the Company. Details of the share option schemes are set out in the section under "Share Option Scheme" in the note 27 to the financial statements.

Contingent liabilities

As at the date of this annual report, the Directors have had no knowledge of any material contingent liabilities (2004: Nil).

Dividend

The directors do not recommend the payment of a final dividend for the year ended 30 September 2005 (2004: Nil).

Capital structure

During the year under review, there was no movement of the share capital of the Company.

As at 30 September 2005, 1,543,160,470 shares of the Company were issued and fully paid.

Capital commitment and substantial investments

The Group did not have any capital commitment and substantial investments during the year under review.

Future plans for substantial investments or capital assets

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

Major acquisitions or disposals

The Group did not have any major acquisitions or disposals during the year under review.

Trade receivables discloseable under Chapter 17 of the GEM Listing Rules

As disclosed in the Company third quarterly report dated 12 August 2005, there are three trade receivables due by 北京國創華利科技有限公司, 上海華立通信信息有限公司and 上海吾淩通信工程有限公司amounted to HK$7,660,000, HK$3,100,000 and HK$4,700,000 respectively. Taking into account of no progress being made and the aging of these trade receivables as at 30 September 2005, a full provision to these three trade receivables were made.

Further disclosure of trade receivable under Chapter 17 of the GEM Listing Rules is disclosed in the "Report of the Directors".

Business Review

The principal business of the Group is to provide network solutions. However, the Group made a strategic review in the past one year in the network infrastructure solutions and system integration projects which recorded falling profit margin, resulting in a considerable decrease in the turnover of the Group.

Network infrastructure solutions

The network infrastructure solutions business has always been a principal source of revenue of the Group in the past few years. The Company generated a turnover from this segment of approximately HK$27.8 million, accounting for 46.3% of the turnover during the year under review. However, the profit margin of the projects in this business segment continued to be under pressure, with a sales profit margin amounting to 10% approximately. We have taken cautious steps in screening projects with an acceptable profit margin.

Network management solutions and other network solutions

This business segment has declined to a less important level during the period under review. Construction of local network management projects, which has been carried out over the past several years, is close to completion. In this business segment, we have switched to the development of "Enterprise IP Network Management and Maintenance Service Platform" (the "IP Service"), using our existing technology as the base.

Electronic payment platform and enterprise IP network management and maintenance service platform

The Group has made an adjustment to its business by focusing on the development of the electronic payment platform ("e-Pay") and Enterprise IP Network Management and Maintenance Service Platform ("IP service"). As the e-Pay is still at a preliminary stage in the PRC market with a wide range of applications, the Group believes that it holds a huge market potential. The Group has worked together with manufacturers which possess the core technology on improving the technology and carrying out marketing. The Group has acquired the patented technology of the IP service and teamed up with telecommunications operators in launching the service to the market, which was well-received by the market. However, these two businesses failed to generate any benefits during the period under review and currently come to a halt owing to the Group's acute shortage of operating funds at the present stage.

Transmission solutions

The Group provides transmission solutions through Shengxin in which it indirectly owns a 51% equity interest. Shengxin is mainly engaged in the manufacturing and sale of communication cables and optical fiber cables. This business segment accounted for 48.7% of the turnover of the Group in the year under review, which is a major percentage. However, the rising prices of copper, a major raw material for Shengxin, have created an adverse effect on the business of transmission solutions, which was still at a loss during the period under review.

Research and development

In year 2004, our research and development team embarked on the research and development of the "Enterprise IP Network Management and Maintenance Service Platform" to enable corporate clients to centrally manage and maintain IP networks and elements. We have already been awarded a patent certificate accordingly from China's Bureau of Information Industry.

The Group has been striving to seek potential investors for new financing in order to support the continuous development of business and select strategic partners. It is intended to stimulate the further expansion of business of the Company as well as to enhance profitability and improve the contribution to profit of the Company."

For the year ended 30 September 2006

"Financial Review

Turnover

Turnover for the fiscal year ended 30 September 2006 amounted to approximately HK$71.0 million compared with approximately HK$60.1 million last year, representing an increase of 18.2%. The increase in turnover was mainly attributable to the success of the transmission solutions of Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin") to have secured significant market share in markets like Shandong and Shanghai during the year.

During the year under review, the Group's net loss attributable to equity holder of the Company was substantially narrowed down to approximately HK$16.2 million (2005: approximately HK$82.1 million). The Group remained committed to implementing cost control measures during the year resulting in a marked narrowing of loss.

Gross profit margin

Gross profit margin for the year under review was 13.7%, dropping slightly as compared with that of last year. During the year under review, the Group focused its business on transmission solutions, which was usually of lower gross profit margin as compared with other business segments of the Group.

Selling and distribution costs and administrative expenses

Selling and distribution costs for the year under review totaled approximately HK$3.8 million (2005: approximately HK$5.6 million). Sales during the year involved mainly transmission business, which was generally of lower sales expenses.

Administrative expenses decreased to approximately HK$13.6 million in 2006 (2005: approximately HK$22.0 million). The decrease in administrative expenses was a result of the Group's concerted efforts to maximize operational efficiency and streamline operational expenses.

Segmental information

Turnover generated from the transmission segment of Shengxin amounted to approximately HK$70.7 million, accounting for 99.6% of the turnover for the year under review (2005: approximately HK$29.2 million). In light of the intense market competition for the Company's existing business, the Company is gradual fading out of the other business segments while pioneering in new businesses.

Order book

As at the date of this report, the Group has secured approximately HK$20.0 million worth of contracts on hand.

Financial resources and liquidity

Net current liabilities of the Group as at 30 September 2006 were approximately HK$28.3 million (2005: approximately HK$42.2 million). As at 30 September 2006, the decrease of net current liabilities was because the Group had made up for bank loans with its real estates. The Group had short-term cash and bank deposits of approximately HK$3.5 million (2005: approximately HK$6.3 million). The decrease in cash and bank deposit balance was a result of the operating losses recorded during the year under review.

As at 30 September 2006, the Group's total bank and other borrowings amounted to approximately HK$27.5 million at fixed interest rates ranging from 7.25% p.a. to 12% p.a. (2005: approximately HK$24.0 million at fixed interest rates ranging from 7% p.a. to 7.25% p.a.).

Charge on Group assets

Details of the charge on Group assets are set out in note 27 to the financial statements.

Exposure to fluctuations in exchange rates

The Group continued to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong Dollars or in the local currencies of the places where the Group's subsidiaries are operating, to minimize its exposure to foreign exchange risks.

Gearing ratio

The Group's gearing ratio as at 30 September 2006 increased to 119.4% (2005: 106.2%). The gearing ratio was based on the Group's total liabilities over its total assets.

Employees

As at 30 September 2006, the Group has had 127 employees, including 115 employees of Shengxin, as compared with 175 employees for the same period last year. The staff costs, including directors' emoluments, totaled approximately HK$5.6 million for the year under review (2005: approximately HK$10.3 million). During the year under review, the Group strived to streamline operations and keep the costs under control so that the number of employees and the amount of staff costs could be reduced.

Share option schemes

The Group has adopted two share option schemes, whereby some directors and employees of the Group may be granted an option to subscribe for the shares of the Company. Details of the share option schemes are set out in the section under "Share Option Scheme" in note 30 to the financial statements.

Contingent liabilities

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

Dividend

The Directors do not recommend the payment of a final dividend for the year ended 30 September 2006 (2005: Nil).

Capital structure

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

In February 2006, the Company allotted 85,000,000 shares of US$0.01 each to an independent third party at a subscription price of HK$0.078 per share.

As at 30 September 2006, 1,628,160,470 shares of the Company were issued and fully paid.

Capital commitment and substantial investments

The Group did not have any capital commitment, other than HK$467,000 in respect of construction of building, and substantial investments during the year under review.

Future plans for substantial investments or capital assets

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

Major acquisitions or disposals

During the year, the Group was defaulted in repayment of bank loan of approximately HK$13.7 million and the pledged property of the Group with a carrying value of approximately HK$18.3 million was assigned to the bank for settlement of the bank loan.

Save as disclosed, the Group did not have any major acquisitions or disposals during the year under review.

Business Review And Outlook

Transmission solutions

During the year under review, the turnover of the Group mainly generated from the transmission segment which was a result of the strategic adjustment adopted by the Group in the past year in consideration of the development of the Group and the market conditions. The transmission segment carries business of manufacturing and sale of communication cables and optical fiber cables through Shengxin, a subsidiary that the Group owns 51% equity interest. Turnover attributable by this segment for the year under review was approximately HK$70.7 million, representing 99.6% of the turnover. For the fiscal year 2006, growth in turnover was recorded particularly some substantial orders were secured by Shengxin in the third quarter of the year. However, due to the copper price, the main raw material of this business, has remained high, the profit margin was still under pressure.

Corporate development

Considering that the existing business is insufficient to support the Group's development, the Group has embarked on the research and development and marketing of the RFID technology and other relevant projects.

For improving the Group's results and operational efficiency, stringent cost control measure was implemented during the year under review and the Group's structure and workforce had also been streamlined.

Over the past two years, the Group has been keen on exploring new business opportunities in order to enhance the business base and to improve the performance of the Group. We have pursued different business projects, such as electronic payment platform and RFID technology and relevant projects. However, these projects took longer time than expected to be realized. On the other hand, the financial constraint of the Group also affected the pace of implementation of some projects. Nevertheless, we're still confident in pursuing these new business opportunities and full effort will be devoted to the potential projects.

For the further business development and enhancement of the financial condition of the Group, we will continuously look for new funding, potential investors and business partners with strategic value."

For the year ended 30 September 2007

"Financial Review

Turnover

For the financial year under review, the Group recorded a 50% growth in turnover to approximately HK$106.4 million as compared to approximately HK$71.0 million recorded in 2006, mainly driven by the success of the transmission solutions of Wujiang Shengxin Optoelectronics Technology Co, Ltd. ("Shengxin").

Group's net profit attributable to equity shareholders was approximately HK$2.6 million in 2007, compared to a loss of approximately HK$16.2 million in 2006. The performance improvement was a result of the Group's perseverance and persistence in improving productivity while at the same time managing cost effectively.

Gross profit margin

Despite the increase in turnover, the gross profit margin declined marginally to 11.4% (2006: 13.7%) due essentially to higher operating cost and lower margin contribution from the transmission segment. The gross profit margin percentage may fluctuate and period to period changes in such margin percentages may not indicative of a trend for the business.

Other revenue and income

Other revenue and income for the fiscal year 2007 amounted to approximately HK$21.8 million (2006: HK$4.8 million), which consisted primarily of financial assets at fair value approximately HK$11.3 million.

Selling and distribution costs and administrative expenses

Total selling and administrative expenses for the year ended 30 September 2007 were approximately HK$4.4 million (2006: HK$3.8 million), an increase of 16.2% from last fiscal year. As a percentage of revenue, selling and distribution costs were 4.2% and 5% in 2007 and 2006, respectively.

The Group's administrative expenses increased by 5% to approximately HK$14.3 million in 2007 (2006: HK$13.6 million) because of increase in headcount-related expenses. Our headcount expected to increase, as we continue to focus on expanding new market segment, additional sales coverage; growing and expanding our advanced technologies; and strengthening our product offerings in the market. However, it is the Group policy of adherence to prudent cost controls and keeping cost at reasonable level but without jeopardizing the efficiency and productivity level.

Segmental information

As a result of organisational changes, beginning in fiscal 2007, our reportable segment was focused on transmission segment. Sales from the transmission segment accounted for 100% of the turnover of the Group for the year ended 30 September 2007.

Order book

As at the date of this report, the group has secured approximately HK$12.0 million worth of contracts on hand.

Financial resources and liquidity

Net current assets of the Group as at 30 September 2007 were approximately HK$124.8 million (2006: net current liabilities approximately HK$28.3 million). As at 30 September 2007, the Group had short term cash and bank deposits (including pledged deposits of HK$790,000) of approximately HK$92.2 million (2006: approximately HK$3.5 million). The increase in the cash and cash equivalent was primarily a result of issuance of common stock HK$149.5 million partially offset by cash used for repayment of loan and investments acquired.

We expect that cash provided by operating activities may fluctuate in future period as a result of a number of factors, including fluctuations in our operating results, accounts receivable collections, inventory management and other payments.

As at 30 September 2007, the Group's total bank and other borrowings amounted to approximately HK$31.8 million at fixed interest rates ranging from 5.61% p.a. to 12% p.a. (2006: approximately HK$27.5 million at fixed interest rates ranging 7.25% p.a. to 12% p.a.).

Charge on Group assets

Details of the charge on Group assets are set out in note 28 to the financial statements.

Exposure to fluctuations in exchange rates

The Group continued to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong Dollars or in the local currencies of the places where the Group's subsidiaries are operating, to minimize its exposure to foreign exchange risks.

Gearing ratio

The gearing ratio of the Group, based on total liabilities to total assets of the company, was significantly improved to 35.7% as at 30 September 2007 (2006: 119.4%).

Employees

As at 30 September 2007, the Group has had 148 employees (2006:127 employees), including 136 employees of Shengxin (2006: 115 employees). The staff costs, including the directors' emoluments amounted approximately HK$6 million for the year under review (2006: HK$ 5.6 million). In addition to the basic salaries, staff benefits include medical coverage and share options scheme. Training and development opportunities continue to be offered to enhance employees' knowledge and skills. Competition for personnel of the highest caliber is intense in the industries; we endeavor to give our employee challenging work, bonuses, competitive wages and participate financially in the success of IIN through stock option plan. Our success will depend on our continued ability to attract and retain highly qualified, experienced and talented personnel.

Share option schemes

The Group has adopted two share option schemes, whereby directors and employees of the Group maybe granted an option to subscribe for the shares of the company. Additional information regarding share option schemes are set out in the section under "Share Option Scheme" of this report.

Contingent liabilities

As at the date of this annual report, the Directors have had no Knowledge of any material contingent liabilities.

Dividend

The Board of Directors does not recommend the payment of a final dividend for the year ended 30 September 2007 (2006: Nil).

Capital structure

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

On 14 May 2007, the Company entered into a placing agreement to place an aggregate of 325,600,000 placing shares at the price of HK$0.095 per placing share.

On 5 June 2007, the Company and Placing Agent entered into a Placing Agreement to place a total 1,000,000,000 new shares at the Placing Price of HK$0.12 per Placing Share.

During the year ended 30 September 2007, 3,600,000 share options were exercised at HK$0.078 per share (at par value).

As at 30 September 2007, 2,957,360,470 shares of the company were issued and fully paid.

Capital commitment and substantial investments

As at 30 September 2007, II Networks International Limited, a wholly-owned subsidiary of the Company, entered into an agreement with China Standard Limited to acquire entire interest in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited for a consideration of HK$440 million.

Details of the capital commitment are set out in the note 37 to the financial statements and the Company's circular dated 3 October 2007.

Future plans for substantial investments or capital assets

II Networks International Limited, a wholly owned subsidiary of the Company, entered into a memorandum of understanding with an independent third party in relation to the possible acquisition of a group of companies which are principally engaged in the research and development, usage of renewable ground-source energy as alternative energy sources for heating and cooling.

Major acquisition or disposals

During the year ended 30 September 2007, II Networks International Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party ("the Purchaser") in relation to acquire entire interests in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited at an aggregate consideration of HK$440 million.

Details of the acquisition are set out in the Company's circular dated 3 October 2007 and this transaction was completed on 7 November 2007.

Business Review And Outlook

Transmission solutions

For the year under review, the turnover of the Group was entirely generated from the transmission segment as a result of the development strategy in line with the changes in the market condition. The transmission segment carries out the sale of transmission products such as cables and fiber optic cables through Shengxin, a subsidiary in which the Group owns a 51% equity interest. As a result of the growth in the investments by Chinese domestic telecommunications operators, supply contracts of a substantial value were successfully secured in the Shanghai, Shandong and Hunan markets, pushing the turnover for the financial year under review to rise substantially to approximately HK$106.4 million from approximately HK$71.0 million of the previous year, representing an increase of approximately 50%. However, the profit margin was still under pressure as the prices of copper, the main raw material for the transmission business, remained high.

Considering that the existing business is not sufficient to support the Group's development, the Group has been aggressively pursuing the direction towards diversification. During the year under review, the Group entered into an agreement with China Standard Limited on the acquisition of the entire equity interests in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited, and subsequently completed the acquisition in November 2007. Considering that relevant demand in the sectors is expected to grow geometrically in the next several years as a result of China's attention; tremendous support on environmental protection program and new energy utilization, the Group remains confident in the future of the company.

By capitalizing on the aggressive efforts of the Group's management, and investor's attention and confidence in the Chinese sectors for environmental protection and new energy utilization, the Group completed two share placements during the financial year under review. The proceeds from the placements will facilitate the improvement of the Group's financial status as well as new business development, further enhance the confidence of the Group in its future development."

4. UNAUDITED FINANCIAL RESULTS OF THE GROUP

(i) Financial results

Set out below is a reproduction of the text of the unaudited financial results of the Group together with the accompanying notes contained on page 4 to page 8 of the first quarterly report of the Company for the three months ended 31 December 2007.

"CONSOLIDATED INCOME STATEMENT

		Three months ended 31 December	
		2007	2006
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*2*	36,904	24,364
Cost of sales		(31,029)	(21,287)
Gross profit		5,875	3,077
Other revenue		2,790	650
Selling and distribution costs		(1,374)	(1,746)
Administrative expenses		(4,540)	(2,763)
Other operating expenses		(582)	(338)
Profit/(loss) from operating activities	*3*	2,169	(1,120)
Finance costs		(772)	(614)
Profit/(loss) before tax		1,397	(1,734)
Tax	*4*	(160)	(73)
Profit/(loss) after tax		1,237	(1,807)
Attributable to:			
Equity holders of the Company		986	(1,811)
Minority interests		251	4
Profit/(loss) for the period		1,237	(1,807)
Dividend	*5*	–	–
Earnings/(loss) per share attributable to the equity holders of the Company	*6*		
– Basic (HK cents)		0.03	(0.11)
– Diluted (HK cents)		0.03	(0.11)

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. The accounting policies and methods of computation used in the preparation of this financial statements are the same as those adopted in preparing the annual audited financial statements for the year ended 30 September 2007. The consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts and business tax where applicable, and services rendered.

An analysis of the Group's turnover is as follows:

	Three months ended 31 December	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Transmission	32,099	24,364
Environmental protection	4,805	–
	36,904	24,364

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	Three months ended 31 December	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)	1,936	1,144
Depreciation	709	579
Minimum lease payments under operating leases in respect of land and buildings	2,998	19

4. TAX

	Three months ended 31 December 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
PRC corporate income tax	160	73

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 December 2007 (2006: Nil).

PRC corporate income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 31 December 2007 (2006: Nil).

Deferred tax liabilities of approximately HK$11,158,000 represent the resulting deferred tax liability of the equity components of convertible notes of approximately HK$63,759,000 at the Hong Kong Profits Tax rate of 17.5%. Details of the convertible notes are set out in the Company's circular dated 3 October 2007.

5. DIVIDEND

The Board does not recommend payment of a dividend for the Review Period (2006: Nil).

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

The calculation of basic and diluted earnings/(loss) per share attributable to equity holders of the Company for the three months ended 31 December 2007 and 2006 are based on the following data:

	Three months ended 31 December 2007 HK$'000 (Unaudited)	2006 HK$'000 (Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share, being profit/(loss) for the period attributable to equity holders of the Company	986	(1,811)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	3,603,482,000	1,628,160,470
Effect of dilutive potential ordinary shares:		
Share options	19,000,000	–
Convertible notes	400,000,000	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,022,481,714	1,628,160,470

7. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 December 2007

	Attributable to equity holders of the Company											
	Issued share capital	Share premium	Convertible notes equity reserve	Statutory reserve	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Special reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 October 2006	126,989	54,964	–	4	766	–	(17)	–	(204,631)	(21,925)	10,195	(11,730)
Net profit/(loss) for the period	–	–	–	–	–	–	–	–	(1,811)	(1,811)	4	(1,807)
As at 31 December 2006	126,989	54,964	–	4	766	–	(17)	–	(206,442)	(23,736)	10,199	(13,537)
As at 1 October 2007	230,667	100,821	–	4	1,618	779	(1,084)	–	(202,037)	130,768	16,125	146,893
Issuance of new shares	69,478	155,949	–	–	–	–	–	(50,000)	–	175,427	–	175,427
Issuance of convertible notes	–	–	63,759	–	–	–	–	–	–	63,759	–	63,759
Deferred tax	–	–	(11,158)	–	–	–	–	–	–	(11,158)	–	(11,158)
Net profit/(loss) for the period	–	–	–	–	–	–	–	–	986	986	251	1,237
As at 31 December 2007	300,145	256,770	52,601	4	1,618	779	(1,084)	(50,000)	(201,051)	359,782	16,376	376,158"

(ii) Management discussion and analysis

The following is the management and discussion analysis extracted from the first quarterly report of the Company for the three months ended 31 December 2007.

"BUSINESS REVIEW

The Board of Directors of IIN International Limited (the "Company") is pleased to announce that the Company together with its subsidiaries (the "Group") registered a substantial growth in the turnover for the three months ended 31 December 2007 (the "Review Period") and further managed to record a profit again.

Given the success of the transmission segment of the Group to secure substantial orders and the internal adjustment to the business strategy during the Review Period, the transmission segment recorded a substantial rise in the turnover and continued to maintain a growth momentum. However, the competition in the segment remains fierce and dampens the segment's gross profit at a relatively low level, thus limiting its contribution to the Group's earnings.

Due to the Group's focus on the development of its transmission segment over the past two years, which may create an obstacle to its long-term overall development to a certain extent, the Group always strives to pursue new business opportunities.

The Group successfully acquired Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai") in November 2007. Shenzhen Lisai's principal business covers synthetical utilisation of marsh gas, disposal and treatment of solid garbage, disposal and treatment of solid dangerous rejectamenta, and sewage treatment. Shenzhen Lisai holds various types of operating licences issued by the State Environmental Protection Administration. The Group believes the acquisition of Shenzhen Lisai is positive to the development of the Company, given the growing awareness of China and the globe about environmental protection, and the PRC government's view of environmental protection as a major issue in its policy objectives. The Group also believes Shenzhen Lisai's business holds huge potential, expecting that the gradual introduction of new projects into the Group will generate more revenue sources and considerable profits.

As mentioned in the Group's 2007 annual report, the management is dedicated to achieving three financial objectives in the financial year of 2008, including (inter alia) reaching its earnings target and enhancing its productivity, continuing to identify profit-making business opportunities for development, and creating value for shareholders.

FINANCIAL REVIEW

Upon completion of the acquisition of Shenzhen Lisai by the Group on 7 November 2007, the results of Shenzhen Lisai have been consolidated into the Group's financial results for the Review Period. As a result, the Group has managed to establish its presence in the prospering environmental protection sector in China. The Group is also confident that it will be able to capture a large market share in such a huge sector.

The Group's turnover during the Review Period increased substantially by approximately 51% to HK$36.9 million, compared to approximately HK$24.4 million for the corresponding period last year, mainly attributable to the success of the transmission segment to continue to secure substantial orders in Shandong and Hunan, and the consolidation of Shenzhen Lisai's environmental protection operations.

During the Review Period, the Group's turnover of 87% or approximately HK$32.1 million was contributed by the transmission segment (corresponding period last year: approximately HK$24.4 million, entirely contributed by the transmission segment). Although the gross profit margin in the transmission market for the Group's existing principal operations remained low, the Group's gross profit margin during the Review Period increased significantly to approximately 16%, compared to approximately 13% for the corresponding period last year. The increase was due to the consolidation of Shenzhen Lisai's environmental protection operations into the Group.

During the Review Period, the Group's consolidated results attributable to equity holders of the Group turned from a loss of approximately HK$1.8 million for the corresponding period last year to a profit of approximately HK$1.0 million, representing a considerable improvement over previous years.

During the Review Period, the sales and distribution costs of the Group decreased substantially to approximately HK$1.4 million, compared to approximately HK$1.7 million for the corresponding period last year, mainly due to the lower distribution costs required for the material contracts of the Group's transmission segment.

During the Review Period, the Group's administrative expenses increased approximately by 64% to approximately HK$4.5 million from approximately HK$2.8 million for the corresponding period last year, which was due to the relevant administrative expenses incurred for the acquisition of Shenzhen Lisai's operations."

5. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 December 2007 (being the latest practicable date for the purpose of this statement of indebtedness), the Enlarged Group had outstanding convertible notes in notional amount of approximately HK$160,000,000 (Note), a secured bank borrowings of approximately RMB198,300,000 (approximately HK$206,232,000) and an unsecured other loans of approximately RMB11,670,000 (approximately HK$12,137,000).

The bank borrowings were secured by the Group's bank deposits, leasehold land, buildings, plant and machineries and corporate guarantee from a related party.

Note: The fair value of the liability portion of the convertible notes was approximately HK$96,241,000 as at 31 December 2007 taken into effect of imputed interest based on the prevailing market rate as at the date of grant and was carried at amortised cost using effective interest method whereas the amount of HK$160,000,000 represents the notional value of the unsecured convertible notes which does not bear any interest as at 31 December 2007.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, as at the close of business on 31 December 2007, any debt securities issued and outstanding, or authorised or otherwise created but unissued, or term loans or bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchase contracts or finance leases, guarantees, or other material contingent liabilities.

The Directors confirm that there has been no material change to the indebtedness or contingent liabilities of the Enlarged Group since 31 December 2007 and up to the Latest Practicable Date.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 September 2007, being the date of which the latest published audited financial statements of the Group were made up.

7. WORKING CAPITAL

Taking account of the Enlarged Group's internal resources, presently available banking and other facilities, and the placing of new shares as announced by the Company dated 14 January 2008, the Directors are of the opinion that in the absence of unforeseen circumstances, the Enlarged Group shall have sufficient working capital for a period of twelve months from the date of this circular.

The following is the text of an accountants' report on the BEES Group received from HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, the reporting accountants, for inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

29 February 2008

The Directors
IIN International Limited
Unit 2201A, 22/F., Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Beijing Enterprises Ever Source Limited ("BEES") and its subsidiaries and associates (herein collectively referred to as the "BEES Group") including the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for each of the three years ended 31 December 2004, 2005 and 2006 and the eleven months ended 30 November 2006 and 2007 (hereinafter collectively referred to as the "Relevant Periods") and the consolidated balance sheet of the BEES Group and the balance sheet of BEES as at 31 December 2004, 2005, 2006 and 30 November 2007 for inclusion in the circular of IIN International Limited (the "Company") dated 29 February 2008 (the "Circular") in connection with the proposed acquisition of the entire equity interest in BEES.

BEES was incorporated in the British Virgin Islands (the "BVI") on 15 November 2001 with limited liability. BEES is principally engaged in investment holding.

At the date of this report, BEES has the following major subsidiaries:

Name of subsidiary	Place and date of establishment	Issued and fully paid up/ registered capital	Attributable equity interest held by BEES	Principal activities
Beijing Enterprises Ever Source Technology Limited ("BEESTL")	Cayman Islands 15 November 2001	USD37,562	100%	Investment holding
Beijing Enterprises Ever Source Energy Limited ("BEESEL")	The BVI 14 December 2004	USD45,826	93.64%	Investment holding
Ever Source Technology Limited ("ESTL")	Hong Kong 13 December 2004	HK$100	93.64%	Investment holding
Beijing Enterprise Ever Source (Hong Kong) Limited ("BEESL (HK)")	Hong Kong 9 April 2003	HK$198	93.64%	Investment holding
Virtue Investments Limited ("VIL")	Hong Kong 13 July 2004	HK$10,000	100%	Investment holding
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd.)	The People's Republic of China (the "PRC") 26 November 2002	USD300,000	100%	Production and sales of machineries geothermal energy systems
北京北控恒有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Limited) ("BEES (Beijing)")	The PRC 21 December 2001	USD3,000,000	100%	Technical know-how holding
北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited) (formerly known as 北京恒有源中央液態冷熱源環境系統技術服務有限公司 (Beijing Ever source Central Liquid Cooling/Heating source Environmental System Technical Service Ltd.))	The PRC 3 July 2003	RMB1,000,000	100%	Property management and technical support service
恒有源科技發展有限公司 (Ever Source Scientific and Technology Development Co. Ltd.) ("ESS")	The PRC 11 December 2002	RMB118,685,285	85.60%	Production and sales of geothermal energy systems
北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited)	The PRC 25 January 2002	RMB10,000,000	100%	Installation of geothermal energy systems

Name of subsidiary	Place and date of establishment	Issued and fully paid up/ registered capital	Attributable equity interest held by BEES	Principal activities
北京市海澱區恒有源職業技能培訓學校 (Beijing Haidan Ever Source Occupational Skills Training School)	The PRC 29 August 2005	RMB300,000	100%	Equipment maintenance training
上海恒有源科技發展有限公司 (Shanghai Ever Source Scientific and Technology Development Limited)	The PRC 28 January 2006	HK$1,100,000	85%	Production and sales of geothermal energy systems
北京恒有源地能熱源系統有限公司 (Beijing Ever Source Geothermal System Limited)	The PRC 15 March 2006	RMB42,500,000	52.94%	Production and sales of geothermal energy systems
北京恒有源冷熱系統科技發展有限公司 (Beijing Ever Source Cool and Hot System Scientific and Technology Development Limited)	The PRC 16 June 2005	RMB1,000,000	51%	Production and sales of geothermal energy systems
北京恒有源西亞特科技發展有限公司 (Beijing Ever Source Se Au Tat Scientific and Technology Development Limited)	The PRC 21 December 2005	RMB500,000	51%	Sales and installation of geothermal energy systems
北京匯澤恒有源科技發展有限公司 (Beijing Wui Chat Ever Source Scientific and Technology Development Limited)	The PRC 8 August 2006	RMB1,000,000	51%	Sales and installation of geothermal energy systems
沈陽恒有源科技有限公司 (Shenyang Ever Source Scientific and Technology Limited)	The PRC 30 May 2007	RMB2,000,000	60%	Sales of geothermal energy systems
北京恒有源綠色能源科技發展有限公司 (Beijing Ever Source Green Energy Scientific and Technology Development Limited)	The PRC 20 November 2006	RMB5,000,000	55%	Sales and installation of geothermal energy systems
北京理德盛恒有源科技發展有限公司 (Beijing Lei Tak Shing Ever Source Scientific and Technology Development Limited)	The PRC 27 March 2007	RMB1,000,000	51%	Sales and installation of geothermal energy systems
呼和浩特恒有源科技發展有限公司 (Fu Wo Ho Tat Ever Source Scientific and Technology Development Limited)	The PRC 2 July 2007	RMB1,000,000	51%	Sales and installation of geothermal energy systems

Name of subsidiary	Place and date of establishment	Issued and fully paid up/ registered capital	Attributable equity interest held by BEES	Principal activities
北京華利恒有源科技發展有限公司 (Beijing Wah Lei Ever Source Scientific and Technology Development Limited)	The PRC 13 October 2006	RMB5,000,000	51%	Sales and installation of geothermal energy systems
大連恒有源能源開發有限公司 (Dalian Ever Source Energy Exploration Limited)	The PRC 30 August 2007	RMB20,000,000	60%	Sales and installation of geothermal energy systems
北京恒有源淺層地能科技發展有限公司 (Beijing Ever Source Shallow Geothermal Energy Scientific and Technology Development Limited)	The PRC 22 April 2005	RMB1,000,000	100%	Sales and installation of geothermal energy systems

At the date of this report, BEES has the following major associates:

Name of associate	Place and date of establishment	Issued and fully paid up/ registered capital	Attributable equity interest held by BEES	Principal activities
北京恒有源康體科技發展有限公司 (Beijing Ever Source Recreation Scientific and Technology Development Limited)	The PRC 19 December 2005	RMB500,000	34.55%	Sales and installation of geothermal energy systems
北京京豐恒有源熱力科技發展有限公司 (Beijing King Feng Ever Source Thermal Energy Scientific and Technology Development Limited)	The PRC 19 January 2006	RMB6,000,000	32.93%	Development of heat technology

At the date of this report, BEES has the following jointly-controlled entity:

Name of jointly-controlled entity	Place and date of establishment	Issued and fully paid up/ registered capital	Attributable equity interest held by BEES	Principal activities
錫林浩特恒有源新能源熱力有限公司 (Xilinhot City Ever Source New Energy and Thermal Limited)	The PRC 10 November 2005	RMB20,000,000	52.8%	Sales, installation and maintenance of geothermal energy systems

Note:

1. BEES directly holds the equity interest in BEESTL. All other equity interests showed above were indirectly held by BEES.

2. The English names of the subsidiaries, associates and jointly-controlled entity represent the best effort made by management of the Company and BEES to translate their Chinese names as those subsidiaries, associates and jointly controlled entity do not have official English names.

All companies have adopted 31 December as their financial year end date.

No audited financial statements was prepared by BEES, BEESTL and BEESEL as there is no statutory audit requirements.

No audited financial statements was prepared for ESTL and VIL as ESTL and VIL have not carried out business other than investment holding since its incorporation.

The statutory audited financial statements of BEESL(HK) for each of the years ended 31 December 2004, 2005 and 2006 were prepared in accordance with Hong Kong Financial Reporting Standards which also included Hong Kong accounting standards and interpretations ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and was audited by Paul Tang & Co. CPA.

The statutory financial statements for the subsidiaries of BEES established in the PRC were prepared in accordance with the relevant accounting rules and regulations (the "PRC GAAP") applicable to enterprises in the PRC, and were audited by the respective certified public accountants in the PRC:–

Name of subsidiary	Financial period	Name of auditors
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co. Ltd.)	Year ended 31 December 2004	Beijing Virtue Certified Public Accountants
	Year ended 31 December 2005	Beijing Virtue Certified Public Accountants
	Year ended 31 December 2006	Beijing Keqin Certified Public Accountants
北京北控恒有源科技發展有限公司 (BEES (Beijing))	Year ended 31 December 2004	Beijing Virtue Certified Public Accountants
	Year ended 31 December 2005	Beijing Virtue Certified Public Accountants
	Year ended 31 December 2006	Beijing Keqin Certified Public Accountants
北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited)	Year ended 31 December 2004	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2005	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2006	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
恒有源科技發展有限公司 (ESS)	Year ended 31 December 2004	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2005	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2006	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited)	Year ended 31 December 2004	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2005	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
	Year ended 31 December 2006	北京中平建會計師事務所有限公司 (Beijing Zhong Ping Jian CPA Ltd.)
北京市海澱區恒有源職業技能培訓學校 (Beijing Haidan Ever Source Occupational Skills Training School)	Year ended 31 December 2006	Beijing Keqin Certified Public Accountants
上海恒有源科技發展有限公司 (Shanghai Ever Source Scientific and Technology Development Limited)	Period from 28 January 2006 (date of establishment) to 31 December 2006	Shanghai Hongda Xinyu Certified Public Accountants Co. Ltd
北京恒有源地能熱源系統有限公司 (Beijing Ever Source Geothermal System Limited)	Period from 15 March 2006 (date of establishment) to 31 December 2006	Beijing Keqin Certified Public Accountants

Note:–

No statutory audited financial statements have been prepared for 北京恒有源冷熱系統有限公司(Beijing Ever Source Cool and Hot System Limited), 北京恒有源西亞特科技發展有限公司(Beijing Ever Source Se Au Tat Scientific and Technology Development Limited), 北京匯澤恒有源科技發展有限公司(Beijing Wui Chat Ever Source Scientific and Technology Development Limited), 北京華利恒有源科技發展有限公司(Beijing Wah Lei Ever Source Scientific and Technology Development Limited), 北京恒有源淺層地能科技發展有限公司(Beijing Ever Source Shallow Geothermal Scientific and Technology Development Limited), 沈陽恒有源科技有限公司(Shenyang Ever Source Scientific and Technology Limited), 北京恒有源綠色能源科技發展有限公司 (Beijing Ever Source Green Energy Scientific and Technology Development Limited), 北京理德盛恒有源科技發展有限公司 (Beijing Lei Tak Shing Ever Source Scientific and Technology Development Limited), 呼和浩特恒有源科技發展有限公司(Fu Wo Ho Tat Ever Source Scientific and Technology Development Limited) and 大連恒有源能源開發有限公司(Dalian Ever Source Energy Exploration Limited) since their respective dates of establishment as they have not yet commenced any business. We have, however, reviewed all significant transactions of these companies from their respective date of establishment for the purpose of this report.

For the purpose of this report, the directors of BEES have prepared the consolidated financial statements of the BEES Group (the "HKFRS Financial Statements") for the Relevant Periods in accordance with the HKFRS. The Financial Information has been prepared based on the HKFRS Financial Statements.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

For the purpose of this report, the directors of BEES are responsible for the preparation and the true and fair presentation of the consolidated financial statements of the BEES Group in accordance with the HKFRS and the directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRS. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is 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. The directors of the Company are responsible for the contents of the Circular in which this report is included.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 of BEES, as well as evaluating the overall presentation of the Financial Information.

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 Financial Information for the years ended 31 December 2004, 2005 and 2006 and for the eleven months ended 30 November 2007, for the purpose of this report, gives a true and fair view of the state of affairs of BEES and the BEES Group and of its financial results and cash flows of the BEES Group for the Relevant Periods.

COMPARATIVE FINANCIAL INFORMATION

Respective responsibilities of directors and reporting accountants

The directors of the Company and BEES are responsible for the preparation of the unaudited financial information of the BEES Group including the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the eleven months ended 30 November 2006 (the "Comparative Financial Information"), together with the notes thereto.

It is our responsibility to form an independent conclusion, based on our review, on the Comparative Financial Information.

Review work performed

For the purpose of this report, we have also reviewed the unaudited financial information of the BEES Group including the Comparative Financial Information, together with the notes thereto, for which the directors of BEES are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

Review conclusion

On the basis of our review of the Comparative Financial Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the Comparative Financial Information presented for the eleven months ended 30 November 2006.

A. FINANCIAL INFORMATION OF THE BEES GROUP

I. CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000	Eleven months ended 30 November 2006 HK$'000 (Unaudited)	2007 HK$'000
Turnover	6	193,380	87,945	91,451	78,814	164,390
Cost of sales		(153,833)	(88,211)	(54,748)	(54,139)	(83,956)
Gross profit/(loss)		39,547	(266)	36,703	24,675	80,434
Other revenue	7	7,465	6,419	20,861	4,727	3,751
Other income	8	162	992	21,592	19,978	39,551
Discount on acquisition	35	580	–	973	973	–
Loss on disposal of an associate		–	–	–	–	(512)
Selling and distribution costs		(7,335)	(7,465)	(21,146)	(19,900)	(15,854)
Administrative expenses		(42,757)	(89,271)	(34,140)	(19,696)	(34,466)
(Loss)/profit from operations		(2,338)	(89,591)	24,843	10,757	72,904
Finance costs	11	(8,994)	(7,537)	(8,652)	(6,579)	(6,313)
Share of results of associates		–	–	(805)	–	(1,304)
Share of result of a jointly controlled entity		–	–	(786)	–	(536)
(Loss)/profit before tax		(11,332)	(97,128)	14,600	4,178	64,751
Income tax expense	12	(1,076)	(774)	(1,148)	(557)	(1,247)
(Loss)/profit for the year/period	9	(12,408)	(97,902)	13,452	3,621	63,504
Attributable to:						
Equity holders of BEES		(21,261)	(101,549)	9,371	4,356	54,476
Minority interests		8,853	3,647	4,081	(735)	9,028
		(12,408)	(97,902)	13,452	3,621	63,504

II. CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 30 November
	Notes	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000
Non-current assets					
Intangible assets	15	19,925	7,067	6,300	5,658
Goodwill	16	–	–	2,728	2,730
Prepaid lease payment	17	14,704	14,675	–	–
Property, plant and equipment	18	19,170	18,696	3,620	8,025
Interests in associates	19	–	236	4,534	1,460
Interests in a jointly controlled entity	20	–	10,154	9,774	9,824
Available-for-sale investments	22	–	125	280	19,046
		53,799	50,953	27,236	46,743
Current assets					
Inventories	23	36,213	46,238	67,921	134,786
Amounts due from customers for contract works	24	10,122	5,301	17,372	36,568
Trade receivables	25	185,774	141,771	72,189	47,973
Deposits, prepayments and other receivables	26	11,566	16,145	19,099	36,946
Held-for-trading financial assets	27	12,821	10,922	9,178	67,189
Amounts due from related parties	28	246	13	35,212	3,739
Time deposits	29	13,243	14,438	1,848	10,600
Bank balances and cash	29	100,795	56,667	82,200	63,205
		370,780	291,495	305,019	401,006
Current liabilities					
Trade payables	30	47,234	50,486	38,102	45,581
Deposits received and other payables	31	14,571	14,278	10,627	24,560
Amounts due to customers for contract works	24	43,414	27,630	28,087	8,154
Tax payable		356	88	1,138	446
Dividend payable		4,049	4,103	4,199	4,503
Amounts due to immediate holding company	28	–	–	21,671	21,673
Amount due to related parties	28	218	1,067	1,608	3,886
Bank borrowings	32	146,226	170,673	155,000	170,660
		256,068	268,325	260,432	279,463
Net current assets		114,712	23,170	44,587	121,543
Total assets and liabilities		168,511	74,123	71,823	168,286
Capital and reserves					
Share capital	33	292	292	292	292
Reserves		123,828	25,088	28,510	100,594
Equity attributable to equity holders of BEES		124,120	25,380	28,802	100,886
Minority interests		44,391	48,743	43,021	67,400
Total equity		168,511	74,123	71,823	168,286

III. BALANCE SHEETS

	Notes	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 November 2007 HK$'000
Non-current asset					
Intangible assets	15	12,000	–	–	–
Interest in subsidiaries	21	102,246	102,246	19,244	19,244
Interest in an associate	19	–	–	2,052	–
		114,246	102,246	21,296	19,244
Current assets					
Deposits, prepayments and other receivables	26	259	289	279	1,832
Held-for-trading financial assets	27	4,824	1,245	1,279	3,608
Time deposits	29	12,492	13,673	1,058	–
Bank balances and cash	29	405	339	422	1,507
		17,980	15,546	3,038	6,947
Current liabilities					
Deposits received and other payables	31	7	14	10	7
Amounts due to immediate holding company	28	–	–	21,671	21,673
Amount due to subsidiaries	28	4,748	3,414	12,920	14,205
Amount due to a related party	28	–	1,054	1,382	1,385
Dividend payable		1,262	1,262	1,262	1,371
		6,017	5,744	37,245	38,641
Net current assets (liabilities)		11,963	9,802	(34,207)	(31,694)
Total assets and liabilities		126,209	112,048	(12,911)	(12,450)
Capital and reserves					
Share capital	33	292	292	292	292
Reserves/(deficit)	34	125,917	111,756	(13,203)	(12,742)
Equity attributable to equity holders of BEES		126,209	112,048	(12,911)	(12,450)

IV. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Share premium	Translation reserve	Statutory reserve	Available-for-sale financial assets reserve	Other reserve	(Accumulated losses)/ Retained profit	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	292	118,836	–	18,370	–	–	7,756	145,254	33,833	179,087
Exchange adjustments	–	–	127	–	–	–	–	127	–	127
Loss for the year	–	–	–	–	–	–	(21,261)	(21,261)	8,853	(12,408)
Current year appropriation	–	–	–	2,048	–	–	(2,048)	–	–	–
Total recognised income/ (expense) for the year	–	–	127	2,048	–	–	(23,309)	(21,134)	8,853	(12,281)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,705	1,705
At 31 December 2004	292	118,836	127	20,418	–	–	(15,553)	124,120	44,391	168,511
At 1 January 2005	292	118,836	127	20,418	–	–	(15,553)	124,120	44,391	168,511
Exchange adjustments	–	–	2,809	–	–	–	–	2,809	–	2,809
Loss for the year	–	–	–	–	–	–	(101,549)	(101,549)	3,647	(97,902)
Total recognised income/ (expense) for the year	–	–	2,809	–	–	–	(101,549)	(98,740)	3,647	(95,093)
Establishment of new subsidiaries	–	–	–	–	–	–	–	–	705	705
At 31 December 2005	292	118,836	2,936	20,418	–	–	(117,102)	25,380	48,743	74,123
At 1 January 2006	292	118,836	2,936	20,418	–	–	(117,102)	25,380	48,743	74,123
Exchange adjustments	–	–	2,826	–	–	–	–	2,826	–	2,826
Profit for the year	–	–	–	–	–	–	9,371	9,371	4,081	13,452
Current year appropriation	–	–	–	666	–	–	(666)	–	–	–
Total recognised income for the year	–	–	2,826	666	–	–	8,705	12,197	4,081	16,278
Arising from group reorganisation	–	–	–	–	–	(8,775)	–	(8,775)	(4,903)	(13,678)
Dividend paid	–	–	–	–	–	–	–	–	(4,900)	(4,900)
At 31 December 2006	292	118,836	5,762	21,084	–	(8,775)	(108,397)	28,802	43,021	71,823

	Share Capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Other reserve HK$'000	(Accumulated losses)/ Retained profit HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007	292	118,836	5,762	21,084	–	(8,775)	(108,397)	28,802	43,021	71,823
Exchange adjustments	–	–	5,694	–	–	–	–	5,694	–	5,694
Fair value changes on available-for-sale financial assets	–	–	–	–	11,914	–	–	11,914	–	11,914
Profit for the period	–	–	–	–	–	–	54,476	54,476	9,028	63,504
Total recognised income for the period	–	–	5,694	–	11,914	–	54,476	72,084	9,028	81,112
Establishment of new subsidiaries	–	–	–	–	–	–	–	–	15,351	15,351
At 30 November 2007	292	118,836	11,456	21,084	11,914	(8,775)	(53,921)	100,886	67,400	168,286
At 1 January 2006	292	118,836	2,936	20,418	–	–	(117,102)	25,380	48,743	74,123
Exchange adjustments	–	–	2,826	–	–	–	–	2,826	–	2,826
Current period appropriation	–	–	–	666	–	–	(666)	–	–	–
Profit for the period	–	–	–	–	–	–	4,356	4,356	(735)	3,621
Total recognised income for the period	–	–	2,826	666	–	–	3,690	7,182	(735)	6,447
Arising from group reorganisation	–	–	–	–	–	(8,775)	–	(8,775)	(4,903)	(13,678)
Dividend paid	–	–	–	–	–	–	–	–	(4,900)	(4,900)
At 30 November 2006 (unaudited)	292	118,836	5,762	21,084	–	(8,775)	(113,412)	23,787	38,205	61,992

Statutory reserves

As stipulated by the relevant laws and regulations in the PRC, the subsidiaries of the BEES Group which established in the PRC are required to maintain certain statutory funds which are non-distributable. Appropriation to these reserve funds are made out of net profit after taxation of the respective PRC companies with reference to the financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. The amount and allocation basis are decided annually by the board of the directors of the respective PRC companies.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(s).

Available-for-sale financial assets reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 3(m).

Other reserve

Other reserve represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares used by BEES exchange thereafter.

V. CONSOLIDATED CASHFLOW STATEMENTS

	Year ended 31 December			Eleven months ended 30 November	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
(Loss)/profit from operations	(11,332)	(97,128)	14,600	4,178	64,751
Adjustment for:					
Depreciation of property, plant and equipment	1,338	1,481	684	627	677
Amortisation of prepaid lease payment	306	312	–	–	–
Amortisation of intangible assets	991	1,010	1,050	963	1,020
Impairment of intangible assets	–	12,000	–	–	–
Impairment loss of trade receivables	21,831	48,463	13,628	–	6,713
Gain on disposal of property, plant and equipment	–	–	(2,130)	(2,130)	–
Loss (gain) on disposal of held-for-sale financial assets	951	(338)	(2,105)	(2,228)	(11,032)
Discount on acquisition	(580)	–	(973)	(973)	–
Fair value loss (gain) on held-for-trading financial assets	122	2,876	(4,219)	(4,373)	(28,257)
Waiver of trade payables	–	(653)	(12,914)	(11,124)	(253)
Share of results of associates and jointly controlled entity	–	–	1,591	–	1,840
Gain on disposal of associate and jointly controlled entity	–	–	–	–	512
Interest income	(811)	(797)	(1,195)	(758)	(747)
Operating profit (loss) before working capital changes	12,816	(32,774)	8,017	(15,818)	35,224
Increase in inventories	(11,784)	(10,025)	(21,683)	(33,831)	(66,865)
(Increase) decrease in trade receivables	(62,284)	(4,460)	55,954	40,602	17,503
Decrease (increase) in deposits, prepayments and other receivables	70,217	(4,579)	(2,954)	835	(17,847)
Increase (decrease) in trade payables	12,341	3,905	(190)	13,877	7,732
(Decrease) increase in deposits received and other payables	(22,578)	(293)	(3,651)	13,274	13,933
Increase (decrease) in amount due to customers for contract works	33,292	(10,963)	(11,614)	(9,741)	(39,129)
Increase in amounts due to immediate holding company	–	–	43,404	43,405	2
Decrease (increase) in amounts due to related parties	21,911	1,082	(34,658)	(34,803)	33,751
Cash generated from (used in) operations	53,931	(58,107)	32,625	17,800	(15,696)
Net tax (paid) refund	(1,700)	(1,042)	(98)	(1,620)	(1,939)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	52,231	(59,149)	32,527	16,180	(17,635)

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
INVESTING ACTIVITIES					
Interest received	811	797	1,195	758	747
Acquisition of subsidiaries	3,223	–	(43,370)	(43,370)	(2)
Acquisition of additional interest in shareholdings of subsidiaries	–	–	(97,220)	(97,220)	–
Investment in associate and jointly controlled entity	–	(10,390)	(5,156)	(5,156)	–
Investment in available-for-sale investments	–	(125)	(150)	(150)	(6,835)
Purchase of held-for-trading financial assets	(3,093)	(639)	–	–	(18,722)
Proceeds from disposal of property, plant and equipment	–	–	35,317	35,317	–
Proceeds from disposal of held-for-trading financial assets	–	–	8,068	6,990	–
Proceeds from disposal of associates and jointly controlled entity	–	–	–	–	1,540
Purchase of property, plant and equipment	(720)	(638)	(2,792)	(2,792)	(4,864)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	221	(10,995)	(104,108)	(105,623)	(28,136)
FINANCING ACTIVITIES					
Proceeds from (repayment of) bank borrowings	(42,453)	24,447	(15,673)	(16,680)	15,660
Proceeds from (repayment of) ultimate holding company	–	–	108,352	108,352	–
Dividend paid	–	–	(9,904)	(9,904)	–
Capital contribution from minority shareholders	–	–	–	–	15,349
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(42,453)	24,447	82,775	81,768	31,009
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,999	(45,697)	11,194	(7,675)	(14,762)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	100,696	114,038	71,105	71,105	84,048
Effect of foreign exchange rate changes	3,343	2,764	1,749	1,498	4,519
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	114,038	71,105	84,048	64,928	73,805
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Time deposits, bank balances and cash	114,038	71,105	84,048	64,928	73,805

VI. NOTES TO THE FINANCIAL INFORMATION OF THE BEES GROUP

1. GENERAL INFORMATION

BEES was incorporated in the British Virgin Islands as an exempted company with limited liability. Its ultimate holding company is Ever Sincere Investment Limited, a company incorporated in Bermuda. The address of the registered office and principal place of business of BEES is TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

BEES is an investment holding company. The principal activities of its subsidiaries and associate are research, development, production, sales and installation of geothermal energy system.

All significant intra-group transactions, cash flows and balances have been eliminated on consolidation.

The Financial Information is presented in Hong Kong dollar, which is the functional currency of the BEES Group.

2. ADOPTION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which also include Hong Kong Accounting Standards ("HKASs") and interpretations issued by the HKICPA.

During the Relevant Periods, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the BEES Group has consistently applied all these new HKFRSs over the Relevant Periods.

At the date of this report, the following new and revised HKFRSs have been issued but are not yet effective. The BEES Group has not early adopted these new and revised HKFRSs. The directors of BEES anticipate that the application of these new and revised HKFRSs will not have material impact on the results and financial position of the BEES Group.

HKFRS 8	*(Note a)*	Operating Segments
HKAS 23 (Revised)	*(Note a)*	Borrowing Costs
HK(IFRIC) – INT 11	*(Note b)*	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – INT 12	*(Note c)*	Service Concession Arrangements
HK(IFRIC) – INT 13	*(Note d)*	Customer Loyalty Programmes
HK(IFRIC) – INT 14	*(Note c)*	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes:

a. Effective for accounting periods beginning on or after 1 January 2009.
b. Effective for accounting periods beginning on or after 1 March 2007.
c. Effective for accounting periods beginning on or after 1 January 2008.
d. Effective for accounting periods beginning on or after 1 July 2008.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared under historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information also includes applicable disclosures required by the Rules Governing the Listing of Securities on The Growth Enterprises market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the BEES Group's accounting policies.

On 28 June 2006, the BEES Group carried out a group reorganisation (hereinafter collectively referred to the "BEES Group Reorganisation") as follows:

1) BEESTL, originally a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL"), allotted 195,299,999 and 21,700,000 shares at par value of HK$0.1 to BEES and Ever Sincere Investment Limited ("ESI") respectively. ESI and BEHL then transferred all of their interests in BEESTL to BEES at an aggregate consideration of approximately HK$21,671,000.

2) BEESEL, originally a wholly-owned subsidiary of BEHL, allotted 429,140, 3,862,266 and 291,195 shares at par value of US$0.01 to ESI, BEES and Global Dynamic Services Limited respectively. ESI, BEES and BEHL then transferred all of their interests in BEESEL to BEESTL at an aggregate cash consideration of approximately HK$212,745,000.

3) BEES transferred 70.51% interest in ESS to BEESEL. BEHL and 江森新能源股份有限公司 (Jiang Sen New Energy Corporation Ltd.), which were the minority shareholders of ESS, transferred their entire equity interest in ESS to BEESEL at an aggregate cash consideration of approximately HK$108,385,000.

Following the BEES Group Reorganisation, BEESTL and BEESEL became subsidiaries of BEES.

The Financial Information in respect to the BEES Group Reorganisation has been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA, because the acquisition of the companies by BEES now comprising the BEES Group was regarded as a business combination under common control as BEES and the companies now comprising the BEES Group are ultimately controlled by BEHL.

The Financial Information presents the results, cash flows and financial position of the BEES Group for the years ended 31 December 2004, 2005 and 2006 and the eleven months ended 30 November 2007 on the basis that BEES, for the purpose of this circular, is regarded as a continuing entity and that the BEES Group Reorganisation had been completed during the year ended 31 December 2006 and that the business of the BEES Group had been conducted throughout the Relevant Periods as they are related to entities under common control of BEHL in accordance with its shareholdings and certain contractual arrangements, before and after the BEES Group Reorganisation.

A business combination involving entities or businesses under common control is "a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory".

(b) Basis of consolidation

The Financial Information incorporates the financial statements of BEES and its subsidiaries. Control is achieved where the BEES has a 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 Relevant Periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the BEES Group are eliminated on consolidation.

On acquisition of additional interest in a subsidiary, the difference between the consideration paid and the relevant share of the fair value of net assets of the subsidiary attributable to the additional interests in subsidiary acquired from minority interests are recognised as goodwill or discount on acquisition. Difference between the fair value and the carrying value of the relevant share of underlying assets and liabilities attributable to the additional interest in the subsidiary is debited to special reserve. On subsequent disposal of the subsidiary, the attributable special reserve is transferred to accumulated profit.

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

(c) Investment in subsidiaries

Investment in subsidiaries is included in BEES's balance sheet at cost, less any identified impairment loss.

(d) Investments in associates

The results and assets and liabilities of associates are incorporated in this Financial Information 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 BEES Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the BEES 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 BEES Group's net investment in the associate), the BEES 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 BEES Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

(e) Interest in a jointly controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The BEES Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The BEES Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the BEES Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in BEES's income statement to the extent of dividends received and receivable. BEES's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any accumulated impairment losses.

(f) Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the business combination over the BEES Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly controlled entities and associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the BEES Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the BEES Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the BEES Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the BEES Group's primary or the BEES Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(g) Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

Any excess of the BEES Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, jointly-controlled entities and associates, after reassessment, is recognised immediately in the consolidated income statement.

The excess for jointly-controlled entities and associates is included in the BEES Group's share of the jointly controlled entities' and associates' profits or losses in the period in which the investments are acquired.

(h) Impairment of tangible and intangible assets with finite lives other than goodwill

At each balance sheet date, the BEES Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the BEES Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(i) Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

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

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

(j) Intangible assets

Technical know-how

Intangible assets are technical know-how on technology of central liquid cooling/heating source environmental system.

Technical know-how with a finite useful life is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (less than 20 years).

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

Research and development expenditure

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

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

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

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

(k) Inventories

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

(l) Construction contract

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

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

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

Provision is made for foreseeable losses as soon as they are anticipated by management.

When contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as amount due from customer for contract work.

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

(m) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when an entity of the BEES Group becomes a party to the contractual provisions of the instruments. 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.

Financial assets

The BEES Group's financial assets are classified into loans and receivables. The accounting policies adopted are set out below.

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 debtors, deposits and prepayments, amounts due from fellow subsidiaries, time deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit of loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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 asset of the BEES Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, deposits received, other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Equity instruments issued by the BEES Group 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 BEES 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 the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

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

(n) Revenue recognition

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

From the sales of goods are recognised when goods are delivered and title has passed.

From the construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contract" above.

From the rendering of services, when the services are rendered.

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.

(o) Prepaid lease payments

Payment for obtaining land use rights accounted for as prepaid lease payments and is charged to the income statement on a straight-line basis over the lease terms.

(p) 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 reported separately as other income.

(q) 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. Taxation profit differs from reported in the 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 and deductible. The BEES 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 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 tax profit nor the accounting profit.

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 profits 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 to 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(r) Leasing

Leases are classified as finance lease 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 BEES Group as lessee

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

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

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

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

(u) Retirement benefits costs

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

(v) Provisions

Provisions are recognised when the BEES Group has a present obligation as a result of a past event, and it is probable that the BEES Group will be required to settle that obligations. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(w) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the BEES Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to Financial Information. When a change in the probability of an outflow occurs so that the outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the BEES Group. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(x) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the BEES Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the BEES Group or of any entity that is a related party of the BEES Group.

A transaction is considered to be a related party transaction where there is a transfer of resources or obligations between related parties.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the BEES Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may 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 property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the BEES Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The BEES Group' management estimates the contract revenue, contract costs and foreseeable losses of construction and design work based on the budgets prepared for the contracts. Because of the nature of the activities undertaken in construction and design works businesses, management reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual revenue are less than expected or actual contract costs are more than expected, a material impairment loss may arise.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

Amortisation of technical know-how

Technical know-how are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The BEES Group reassesses the useful life of the technical know-how and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

5. FINANCIAL RISK MANAGEMENT

a. Financial risk management objectives and policies

The BEES Group's major financial instruments include available-for-sale investments, trade receivables, deposits, prepayments and other receivables, held-for-trading financial assets, amounts due from related companies, time deposits, bank balances and cash, trade payables, deposits received and other payables amounts due from (to) customers for contract works and amount due to related companies. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

BEES and the BEES Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheets and consolidated balance sheets respectively. In order to minimise the credit risk, the BEES Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of BEES consider that the BEES Group's credit risk is significantly reduced.

The BEES Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The main operations of the BEES Group were in the PRC and most of the transactions were denominated in Renminbi. The BEES Group did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the Relevant Periods.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The BEES Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The BEES Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective balance sheet dates to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average effective interest rate	Less than 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Over 5 years *HK$'000*
At 31 December 2004					
Trade payables	N/A	41,197	6,037	–	–
Deposits received and other payables	N/A	14,571	–	–	–
Amounts due to customers for contract works	N/A	43,414	–	–	–
Amounts due to related parties	N/A	218	–	–	–
Interest-bearing borrowings	11%	146,226	–	–	–
		245,626	6,037	–	–
At 31 December 2005					
Trade payables	N/A	32,205	16,393	1,888	–
Deposits received and other payables	N/A	12,878	1,400	–	–
Amounts due to customers for contract works	N/A	27,630	–	–	–
Amounts due to related parties	N/A	1,067	–	–	–
Interest-bearing borrowings	11%	170,673	–	–	–
		244,453	17,793	1,888	–
At 31 December 2006					
Trade payables	N/A	22,647	11,186	4,269	–
Deposits received and other payables	N/A	8,272	2,055	300	–
Amounts due to customers for contract works	N/A	28,087	–	–	–
Amounts due to an immediate holding company	N/A	21,671	–	–	–
Amounts due to related parties	N/A	541	1,067	–	–
Interest-bearing borrowings	11%	155,000	–	–	–
		236,218	14,308	4,569	–
At 30 November 2007					
Trade payables	N/A	34,405	11,176	–	–
Amounts due to customers for contract works	N/A	8,154	–	–	–
Deposits received and other payables	N/A	21,511	994	2,055	–
Amounts due to an immediate holding company	N/A	21,673	–	–	–
Amounts due to related parties	N/A	2,278	541	1,067	–
Interest-bearing borrowings	11%	170,660	–	–	–
		258,681	12,711	3,122	–

Interest rate risk

The BEES Group's fair value interest rate risk is exposed to cash flow interest rate risk due to fluctuation of the prevailing market interest rate on bank balances and bank interest bearing borrowings. The directors of BEES consider the BEES Group's exposure to interest rate risk is not significant as interest bearing bank balances are with short maturity periods. The sensitivity analysis in respect of bank interest bearing borrowings is as follow:–

At the respective balance sheet dates, if bank borrowings interest rates had increased /(decreased) by 1% and all other variables were held constant, the BEES Group's profit would (decrease) increase by approximately HK$1,462,000, HK$1,720,000, HK$1,563,000 and HK$1,707,000 for the three years ended 31 December 2004, 2005, 2006 and the eleven months ended 30 November 2007, respectively.

There has been no change to the BEES Group's exposure to market risks or the manner in which it manages and measures the risks.

b. 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 or using prices from observable current market transactions.

The directors of BEES consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the Financial Information are approximate to their fair values.

The carrying amounts of significant financial assets and liabilities are approximate to their respective fair values as at 31 December 2004, 2005, 2006 and 30 November 2007 because of the short maturities of these instruments.

c. Capital risk management

The BEES Group manages its capital to ensure that entities in the BEES 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 capital structure of the BEES Group consists of debts, which include bank interest bearing borrowings, amounts due to related companies, time deposits, bank balances and cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profits respectively.

The directors of BEES review the capital structure on an annual basis. As a part of this review, the directors of BEES consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of BEES, the BEES Group will balance its overall capital structure through raising or repayment of borrowings.

The BEES Group's overall strategy remains unchanged during the Relevant Periods.

6. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Sales of geothermal energy system	157,672	80,198	88,826	74,789	145,630
Installation services income	35,708	7,747	2,625	4,025	18,760
	193,380	87,945	91,451	78,814	164,390

No segment information analysis of the BEES Group by business or geographical segments is presented as the BEES Group is solely attributable to the sales and installation of geothermal energy system in the PRC during the Relevant Periods and most of the assets of the BEES Group are located in the PRC.

7. OTHER REVENUE

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Bank interest income	811	797	1,195	758	747
Maintenance service income	–	–	176	176	–
Sales of scrap material	–	107	617	440	2,311
Subsidy income	6,473	5,330	18,411	3,264	678
Penalty income	163	185	237	89	15
Others	18	–	225	–	–
	7,465	6,419	20,861	4,727	3,751

8. OTHER INCOME

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Waiver of trade payables	–	653	12,914	11,124	253
Fair value gain on held-for-trading financial assets, net	–	–	4,219	4,373	28,257
Gain on disposal of held-for-trading financial assets, net	–	338	2,105	2,228	11,032
Gain on disposal of property, plant and equipment	–	–	2,130	2,130	–
Compensation income	162	–	216	115	–
Sundry income	–	1	8	8	9
	162	992	21,592	19,978	39,551

9. (LOSS) PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Eleven months ended 30 November	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss) profit for the year/period has been arrived at after charging (crediting):					
Auditors' remuneration	20	21	132	22	–
Depreciation	1,338	1,481	684	627	677
Amortisation of prepaid lease payment	306	312	–	–	–
Amortisation of intangible assets	991	1,010	1,050	963	1,020
Impairment loss of intangible assets	–	12,000	–	–	–
Impairment loss of trade receivables	21,831	48,463	13,628	–	6,713
Staff costs (including directors' remuneration):					
– Salaries and other allowances	13,643	14,183	13,951	12,788	12,988
– Retirement benefit scheme contributions	583	909	1,334	1,223	910
Total staff cost	14,226	15,092	15,285	14,011	13,898
Operating lease rental on land and building	–	409	364	334	510
Research and development costs	435	1,195	357	354	38
Fair value (gain) loss on held-for-trading financial assets	122	2,876	(4,219)	(4,373)	(28,257)
(Gain) loss on disposal of held-for-trading financial assets	951	(338)	(2,105)	(2,228)	(11,032)
Discount on acquisition	(580)	–	(973)	(973)	–
Gain on disposal of property, plant and equipment	–	–	(2,130)	(2,130)	–

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Fees and other emoluments paid or payable to each of the directors of BEES during the Relevant Periods were as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Mr. Xu Shengheng	1,140	1,357	1,103	1,011	1,038
Mr. He Pingdong	–	–	–	–	–
Mr. Zhang Yanzhong	–	–	–	–	–
Mr. Wang Jing *(Note 1)*	–	–	–	–	–
Mr. E Meng *(Note 1)*	–	–	–	–	–
Mr. Liu Kai *(Note 1)*	–	–	–	–	–
Mr. Tung Woon Cheung Eric	–	–	–	–	–
Mr. Zhang Hong Hai	–	–	–	–	–
	1,140	1,357	1,103	1,011	1,038

Note:

1) Mr. Wang Jing resigned as directors of BEES on 8 June 2004 and Mr. E Meng and Mr. Liu Kai resigned as directors of BEES on 30 June 2006.

None of the directors of BEES have waived any emoluments during the Relevant Periods.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the BEES Group, one executive directors of BEES whose emoluments are included in the disclosures as shown in Note 10(a) above during the Relevant Periods. The emoluments of the four highest individuals disclosed pursuant to the Rules Governing the Listing of Securities on The Growth Enterprises Market of The Stock Exchange were as follows:

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and other benefits	706	756	885	811	1,125
Retirement benefits scheme contributions	–	–	–	–	–
	706	756	885	811	1,125

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
				(Unaudited)	
Nil – HK$1,000,000	4	4	4	4	4
HK$1,000,001 – HK$1,500,000	1	1	1	1	1

During the Relevant Periods, no emoluments was paid by the BEES Group to the five highest paid individuals, or directors of BEES, as an inducement to join or upon joining the BEES Group as compensation for loss of office.

11. FINANCE COSTS

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank loans wholly repayable within five years	8,984	7,489	8,600	6,485	6,297
Other finance costs	10	48	52	94	16
	8,994	7,537	8,652	6,579	6,313

12. INCOME TAX EXPENSE

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
The charge comprises:					
Current tax:					
The PRC enterprises income tax	1,076	774	1,148	557	1,247

No provision has been made for Hong Kong Profits Tax as the BEES Group has no assessable profit arising in Hong Kong during the Relevant Periods.

The PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the BEES Group are exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"). The New CIT Law introduces a wide range of changes which standardises the corporate income tax rate to 25% with effect from 1 January 2008. The New CIT Law also provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course.

The taxation for the Relevant Periods can be reconciled to the (loss) profit for the year/period per the consolidated income statements as follows:–

	Year ended 31 December			Eleven months ended 30 November	
	2004	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
(Loss) profit before tax	(11,332)	(97,128)	14,600	4,178	64,751
Tax at the domestic rates applicable to profits in provinces concerned	5,503	(10,030)	1,513	755	12,802
Tax effect of tax credit received	(6,807)	(936)	(1,281)	(907)	(684)
Tax effect of expenses not deductible for tax purpose	1,058	2,856	3,649	13	531
Tax effect of income not taxable for tax purpose	(1,969)	(76)	(1,895)	(1,341)	(657)
Tax effect of tax loss utilised	–	–	(3,322)	(723)	(9,762)
Tax effect of tax loss not recognised	8	8,928	2,483	2,760	(136)
Others	3,283	32	1	–	(847)
Tax charge for the year/period	1,076	774	1,148	557	1,247

13. (LOSS) EARNINGS PER SHARE

(Loss) earnings per share is not presented for the Relevant Periods as such information is not meaningful having regard to the purpose of this report.

14. (LOSS) PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF BEES

The consolidated result attributable to the equity holders of BEES was loss of approximately HK$21,261,000, loss of approximately HK$101,549,000, profit of approximately HK$9,371,000 and profit of approximately HK$54,476,000 for the years ended 31 December 2004, 2005, 2006 and for the eleven months ended 30 November 2007 respectively (for the eleven months ended 30 November 2006: profit of approximately HK$4,356,000).

Profit of approximately HK$5,500,000, loss of approximately HK$14,161,000, loss of approximately HK$22,713,000 and profit of approximately HK$461,000 have been dealt with in the financial statements of BEES for the years ended 31 December 2004, 2005, 2006 and for the eleven months ended 30 November 2007 (for the eleven months ended 30 November 2006: loss of approximately HK$86,000).

15. INTANGIBLE ASSETS

Technical know-how

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
As at 1 January	21,906	21,906	22,096	22,500	12,000	12,000	12,000	12,000
Exchange alignment	–	190	404	630	–	–	–	–
As at 31 December/ 30 November	21,906	22,096	22,500	23,130	12,000	12,000	12,000	12,000
Amortisation								
As at 1 January	990	1,981	3,029	4,200	–	–	–	–
Exchange alignment	–	38	121	252	–	–	–	–
Charge for the year/period	991	1,010	1,050	1,020	–	–	–	–
As at 31 December/ 30 November	1,981	3,029	4,200	5,472	–	–	–	–
Impairment								
As at 1 January	–	–	12,000	12,000	–	–	12,000	12,000
Charge for the year/period	–	12,000	–	–	–	12,000	–	–
As at 31 December/ 30 November	–	12,000	12,000	12,000	–	12,000	12,000	12,000
Carrying amount								
As at 31 December/ 30 November	19,925	7,067	6,300	5,658	12,000	–	–	–

The technical know-how is amortised on straight-line method over 10 years.

During the Relevant Periods, the management of the BEES Group conducted a review of the intangible assets and determined that certain technical know-how were fully impairment due to technical obsolescence. Accordingly, an impairment loss has been recognised in the consolidated income statement for the year ended 31 December 2005.

16. GOODWILL

	As at 31 December			As at 30 November
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	–	–	–	2,728
Acquisition of additional interest in shareholdings of subsidiaries	–	–	2,728	–
Acquisition of a subsidiary	–	–	–	2
At the end of the year/period	–	–	2,728	2,730

The carrying amounts of goodwill at respective balance sheet dates were attributable to acquisition of subsidiary and additional interests in a subsidiary as follow:

	As at 31 December			As at 30 November
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Beijing Ever Hot Pumps Co., Ltd	–	–	2,728	2,728
Virtue Investment Limited	–	–	–	2
	–	–	2,728	2,730

The recoverable amounts in respect of subsidiaries have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 10%, which is determined based on the unit's past performance and management's expectations for the market development. During the Relevant Periods, the directors and management of BEES consider that there are no significant impairment on goodwill.

17. PREPAID LEASE PAYMENT

The BEES Group	As at 31 December 2004 HK$'000	2005 HK$'000	2006 HK$'000	As at 30 November 2007 HK$'000
Carrying amount at the beginning of the year/period	15,010	14,704	14,675	–
Exchange alignment	–	283		
Additions	–	–	587	–
Disposals	–	–	(15,262)	
Amortisation for the year/period	(306)	(312)	–	–
Carrying amount at the end of the year/period	14,704	14,675	–	–

The leasehold lands of the BEES Group during the Relevant Periods are held in the PRC under medium term leases.

18. PROPERTY, PLANT AND EQUIPMENT

The BEES Group	Building HK$'000	Plant and machineries HK$'000	Construction in progress HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2004	18,000	–	–	2,378	746	21,124
Acquisition of a subsidiary	–	–	–	11	–	11
Additions	–	–	–	720	–	720
Disposals	–	–	–	(85)	–	(85)
At 31 December 2004 and at 1 January 2005	18,000	–	–	3,024	746	21,770
Exchange alignment	346	–	–	57	15	418
Additions	1	–	–	269	369	639
At 31 December 2005 and 1 January 2006	18,347	–	–	3,350	1,130	22,827
Exchange alignment	–	–	–	133	46	179
Additions	–	1,550	–	1,021	221	2,792
Disposals	(18,347)	–	–	(23)	–	(18,370)
At 31 December 2006 and at 1 January 2007	–	1,550	–	4,481	1,397	7,428
Exchange alignment	–	93	–	269	84	446
Additions	–	–	2,010	1,844	1,010	4,864
At 30 November 2007	–	1,643	2,010	6,594	2,491	12,738

The BEES Group	Building	Plant and machineries	Construction in progress	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation and impairment						
At 1 January 2004	370	–	–	764	211	1,345
Charge for the year	360	–	–	787	191	1,338
Eliminated upon disposals	–	–	–	(83)	–	(83)
At 31 December 2004 and at 1 January 2005	730	–	–	1,468	402	2,600
Exchange alignment	14	–	–	28	8	50
Charge for the year	367	–	–	861	253	1,481
At 31 December 2005 and at 1 January 2006	1,111	–	–	2,357	663	4,131
Exchange alignment	–	–	–	94	27	121
Charge for the year	–	–	–	519	165	684
Eliminated on disposals	(1,111)	–	–	(17)	–	(1,128)
At 31 December 2006 and at 1 January 2007	–	–	–	2,953	855	3,808
Exchange alignment	–	–	–	177	51	228
Charge for the period	–	40	–	499	138	677
At 30 November 2007	–	40	–	3,629	1,044	4,713
Carrying values						
At 30 November 2007	–	1,603	2,010	2,965	1,447	8,025
At 31 December 2006	–	1,550	–	1,528	542	3,620
At 31 December 2005	17,236	–	–	993	467	18,696
At 31 December 2004	17,270	–	–	1,556	344	19,170

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

Buildings	Over the period of the leases
Plant and machineries	15% – 20%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	15% – 20%

The BEES Group's building comprised of

	As at 31 December			As at 30 November
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Building, outside Hong Kong	17,270	17,236	–	–

19. INTEREST IN ASSOCIATES

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	–	236	5,401	3,228	–	–	2,356	–
Share of post acquisition results	–	–	(805)	(2,109)	–	–	(304)	–
Exchange alignment	–	–	–	273	–	–	–	–
	–	236	4,596	1,392	–	–	2,052	–
Advance to/(from) associates	–	–	(62)	68	–	–	–	–
	–	236	4,534	1,460	–	–	2,052	–

Particulars of the BEES Group's principal associates at 30 November 2007 are set out on page 101.

On 24 August 2007, BEES and the BEES Group disposed their 49% interest in an associate 山西能源產業集團科技發展有限公司 (Shanxi Energy Industrial Group Scientific and Technology Development Limited) at consideration of RMB1,500,000 and recorded a loss on disposal of an associate of approximately HK$512,000 in the consolidated financial statement for the eleven months ended 30 November 2007.

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

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	**2005**	**2006**	**2007**	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	–	482	10,089	3,427	–	–	4,611	–
Total liabilities	–	–	(750)	(487)	–	–	(735)	–
	–	482	9,339	2,940	–	–	3,876	–
BEES and the BEES Group share of net assets of associates	–	236	4,596	1,392	–	–	2,052	–

	The BEES Group				BEES			
	Year ended 31 December			Eleven months ended 30 November	Year ended 31 December			Eleven months ended 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	–	–	43	1,163	–	–	–	–
Loss for the year/period	–	–	(1,671)	(2,772)	–	–	(619)	–
BEES and the BEES Group share of results of associates for the year/period	–	–	(805)	(1,304)	–	–	(304)	–

The advance to associates is unsecured, interest bearing at prevailing market rate and has no fixed repayment terms. In the opinion of the directors of BEES, the BEES Group will not demand for repayment within twelve months from the balance sheet dates and the advance is therefore shown as non-current.

The carrying amounts of the amounts due from associates approximate to their fair values.

20. INTERESTS IN A JOINTLY CONTROLLED ENTITY

The BEES Group	As at 31 December 2004	2005	2006	As at 30 November 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	–	10,154	10,560	11,194
Share of post acquisition profit, net of dividend received	–	–	(786)	(1,322)
Exchange alignment	–	–	–	(48)
	–	10,154	9,774	9,824

Particulars of the BEES Group's principal jointly controlled entity at 30 November 2007 are set out on page 102.

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

The BEESL Group	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 November 2007 HK$'000
Total assets	–	19,266	18,532	18,632
Total liabilities	–	(35)	(21)	(26)
Net assets	–	19,231	18,511	18,606
The BEES Group's share of net assets of a jointly controlled entity	–	10,154	9,774	9,824

	Year ended 31 December 2004 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2006 HK$'000	Eleven months ended 30 November 2007 HK$'000
Turnover	–	362	176	62
Loss for the year/period	–	–	(1,490)	(1,015)
The BEES Group's share of result of a jointly controlled entity for the year/period	–	–	(786)	(536)

21. INTEREST IN SUBSIDIARIES

BEES	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 November 2007 HK$'000
Unlisted shares, at cost	102,246	102,246	41,200	41,200
Less: impairment loss recognised	–	–	(21,956)	(21,956)
	102,246	102,246	19,244	19,244
Amounts due to subsidiaries	(4,748)	(3,414)	(12,920)	(14,205)
	97,498	98,832	6,324	5,039

Details of subsidiaries of BEES as at the report date were set out on page 99 to page 101.

The carrying amounts of investment in subsidiaries are reduced to their recoverable amounts which are determined with reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

The amount due is unsecured, non-interest bearing and has no fixed repayment terms.

In the opinion of the directors of BEES, the carrying amount of the amount due as at balance sheet dates approximates to its fair value.

22. AVAILABLE-FOR-SALE INVESTMENTS

				As at 30
	As at 31 December			**November**
The BEES Group	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
equity securities, at cost	–	125	280	297
Quoted equity securities	–	–	–	18,749
	–	125	280	19,046

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for those equity investments of which their fair values cannot be measured reliably. Fair values of those quoted investments have been determined based on the quoted market bid prices available on the relevant stock trading market.

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

23. INVENTORIES

				As at 30
	As at 31 December			**November**
The BEES Group	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials	23,610	25,263	42,609	43,498
Work in progress	11,385	10,690	17,471	78,220
Finished goods	1,218	10,285	7,841	13,068
	36,213	46,238	67,921	134,786

24. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

The BEES Group	As at 31 December 2004 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2006 HK$'000	As at 30 November 2007 HK$'000
Contracts in progress at the balance sheets:–				
Contract cost incurred to date plus recognised profit less recognised loss	37,238	21,859	22,384	79,654
Less progress billing received and receivable	(70,530)	(44,188)	(33,099)	(51,240)
	(33,292)	(22,329)	(10,715)	28,414
Analysed for reporting purpose:				
Amounts due from customers for contract works	10,122	5,301	17,372	36,568
Amounts due to customers for contract works	(43,414)	(27,630)	(28,087)	(8,154)
	(33,292)	(22,329)	(10,715)	28,414

25. TRADE RECEIVABLES

The credit policies of the BEES Group highly depend on the industry and market environment. The BEES Group generally allows an average credit period of one year to its customers after completion of construction contract. Aged analysis of trade receivables are prepared and closely monitored in order to minimise any credit risk associated with receivables.

An aged analysis of trade receivables of the BEES Group at the balance sheet dates, based on the invoice date and net of provision is as follow:

The BEES Group	As at 31 December 2004	2005	2006	As at 30 November 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	49,617	26,703	18,554	12,684
31-90 days	38,299	7,385	2,246	7,181
91-365 days	56,601	18,417	23,924	26,604
1-2 year	55,858	87,538	26,295	10,939
2-3 years	7,230	59,786	42,139	41,863
Over 3 years	–	12,657	46,202	47,816
	207,605	212,486	159,360	147,087
Less: allowance for impairment loss of trade receivables	(21,831)	(70,715)	(87,171)	(99,114)
	185,774	141,771	72,189	47,973

The movement in impairment loss on trade receivables was as follow:

	As at 31 December 2004	2005	2006	As at 30 November 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January	–	21,831	70,715	87,171
Exchange alignment	–	421	2,828	5,230
Allowance for impairment loss of trade receivables	21,831	48,463	13,628	6,713
	21,831	70,715	87,171	99,114

The BEES Group has not provided for impairment of certain aged trade receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable. The analysis of trade receivables that were neither past due nor impaired and past due but not impaired for the Relevant Periods were as follows:

	As at 31 December 2004	2005	2006	As at 30 November 2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Neither past due nor impaired	144,517	52,505	44,724	47,973
Past due but not impaired	41,257	89,266	27,465	–
	185,774	141,771	72,189	47,973

26. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	3,659	5,158	4,221	12,064	–	–	–	–
Prepayments	3,317	3,686	5,259	10,392	–	–	–	–
Other receivables	4,590	7,301	9,619	14,490	259	289	279	1,832
	11,566	16,145	19,099	36,946	259	289	279	1,832

The directors of BEES consider that the carrying amounts of the BEES Group's deposits, prepayments and other receivables at the balance sheet dates approximate to their fair values.

27. HELD-FOR-TRADING FINANCIAL ASSETS

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities at fair value								
in Hong Kong	12,821	10,922	9,178	29,691	4,824	1,245	1,279	3,608
elsewhere	–	–	–	37.498	–	–	–	–
	12,821	10,922	9,178	67,189	4,824	1,245	1,279	3,608

The fair value of the held-for-trading financial assets are determined based on the quoted market bid price available on the relevant stock trading market.

28. AMOUNTS DUE FROM (TO) SUBSIDIARIES/RELATED PARTIES/IMMEDIATE HOLDING COMPANY

The amounts due from (to) subsidiaries/related parties/immediate holding company are unsecured, interest-free and recoverable on demand.

The directors of BEES consider that the carrying amounts of the amounts due from (to) subsidiaries/related parties/immediate holding company approximate to their fair values.

29. BANK BALANCES AND CASH AND TIME DEPOSITS

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	100,795	56,667	82,200	63,205	405	339	422	1,507
Time deposit, non pledged	13,243	14,438	1,848	10,600	12,492	13,673	1,058	–

Included in time deposits, bank balances and cash are the following amounts denominated in a currency other than the functional currency of the BEES Group to which they relate:

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
United States dollar	17,916	17,582	7,334	77	6,686	6,357	–	–
Renminbi	75,696	38,277	62,275	76,292	–	–	–	–

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

30. TRADE PAYABLES

An aged analysis of trade payables of the BEES Group at the balance sheet dates:

	As at 31 December			As at 30 November
The BEES Group	**2004**	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-90 days	28,576	23,003	8,875	26,520
91-180 days	8,447	4,165	5,638	5,514
181-365 days	4,173	5,037	8,134	2,371
Over 365 days	6,038	18,281	15,455	11,176
	47,234	50,486	38,102	45,581

The directors of BEES consider that the carrying amounts of the BEES Group's trade payables at the balance sheet dates approximate to their fair values.

31. DEPOSIT RECEIVED AND OTHER PAYABLES

	The BEES Group				BEES			
	As at 31 December			As at 30 November	As at 31 December			As at 30 November
	2004	2005	2006	2007	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposit received	339	5,933	3,768	17,057	–	–	–	–
Other payables	14,232	8,345	6,859	7,503	7	14	10	7
	14,571	14,278	10,627	24,560	7	14	10	7

The directors of BEES consider that the carrying amounts of the BEES Group's deposits received and other payables at the balance sheet dates approximate to their fair values.

32. BANK INTEREST BEARING BORROWINGS

The BEES Group	As at 31 December			As at 30 November
	2004	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loan	146,226	170,673	155,000	170,660

(a) During the Relevant Periods, the BEES Group banking facilities were secured by a corporate guarantee of a related company of BEES.

(b) The bank interest-bearing borrowings are carried at prevailing market interest rate.

33. SHARE CAPITAL

	No. of shares
Authorised ordinary shares of US$0.01 each	5,000,000
Issued and fully paid up share capital	*HK$'000*
At 31 December 2004, 2005, 2006 and 30 November 2007	292

34. RESERVES/(DEFICIT)

BEES	Share premium	Other reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	118,836	–	1,581	120,417
Profit for the year	–	–	5,500	5,500
At 31 December 2004	118,836	–	7,081	125,917
At 1 January 2005	118,836	–	7,081	125,917
Loss for the year	–	–	(14,161)	(14,161)
At 31 December 2005	118,836	–	(7,080)	111,756
At 1 January 2006	118,836	–	(7,080)	111,756
Reserve arising from group reorganisation	–	(102,246)	–	(102,246)
Loss for the year	–	–	(22,713)	(22,713)
At 31 December 2006	118,836	(102,246)	(29,793)	(13,203)
At 1 January 2007	118,836	(102,246)	(29,793)	(13,203)
Profit for the period	–	–	461	461
At 30 November 2007	118,836	(102,246)	(29,332)	(12,742)
At 1 January 2006	118,836	–	(7,080)	111,756
Reserve arising from group reorganisation	–	(102,246)	–	(102,246)
Loss for the period	–	–	(86)	(86)
At 30 November 2006 (unaudited)	118,836	(102,246)	(7,166)	9,424

35. ACQUISITION OF SUBSIDIARIES

(a) On 16 March 2004, Beijing Enterprises Ever Source (Beijing) Co., Limited ("BEES (Beijing)"), an indirect non-wholly owned subsidiary of BEES, entered into a sale and purchase agreement with China Major Holdings Limited ("China Major") that China Major agreed to sell and BEES (Beijing) agreed to buy 51% equity interest in Beijing Ever Hot Pumps Co., Ltd at a consideration of US$153,000.

The fair values of the identifiable assets, liabilities of the subsidiaries acquired at their respective dates of acquisition, which have no significant differences from their respective carrying amounts, are as follows:

	The fair value and the carrying amount
	HK$'000
Property, plant and equipment	11
Inventories	12
Trade receivables	1,919
Deposits, prepayments and other receivables	563
Cash and bank balances	4,418
Trade payables	(1,919)
Tax payables	(1,524)
Minority interest	(1,705)
	1,775
Discount on acquisition	(580)
	1,195
Satisfied by cash	1,195

As the revenue and results of the acquired subsidiaries before the acquisition were not significant to the BEES Group, the total group revenue and result, as if the acquisition had been completed on 1 January 2006, are not disclosed as the information does not give additional value.

(b) On 28 June 2006, the BEES Group further acquired 49% equity interest in Beijing Ever Hot Pumps Co., Ltd at a consideration of approximately HK$15,000,000. The fair value of the 49% net assets in the Beijing Ever Hot Pumps Co., Ltd at the date of acquisition was approximately HK$12,272,000. As a result, the BEES Group recognised a goodwill of additional interest in a subsidiary amounted to approximately HK$2,728,000 for the year ended 31 December 2006.

(c) On 28 June 2006, under the BEES Group Reorganisation other than common control combination, the BEES Group also further acquired 1.47% equity interest in ESS at a consideration of approximately HK$4,000. The fair value of the 1.47% net assets in ESS at the date of acquisition was approximately HK$977,000. As a result, the BEES Group recognised a discount on acquisition of additional interest in a subsidiary amounted to approximately HK$973,000 for the year ended 31 December 2006.

(d) On 5 January 2007, BEESEL, an indirect non-wholly owned subsidiary of BEES, entered into a sale and purchase agreement with a third party that the third party agreed to sell and BEESEL agreed to buy entire equity interest in Virtue Investment Limited at a consideration of approximately HK$12,000.

The fair values of the identifiable assets, liabilities of the subsidiaries acquired at their respective dates of acquisition, which have no significant differences from their respective carrying amounts, is as follow:

	The fair value and the carrying amount
	HK$'000
Cash and bank balances	10
	10
Goodwill	2
	12
Satisfied by cash	12

As the revenue and results of the acquired subsidiaries before the acquisition were not significant to the BEES Group, the total group revenue and result, as if the acquisition had been completed on 1 January 2007, are not disclosed as the information does not give additional value.

36. CAPITAL COMMITMENTS

	As at 31 December			**As at 30 November**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Authorised and contracted for:				
In connection with acquisition of companies	–	–	26,200	–

37. OPERATING LEASES

The BEES Group as leasee

	As at 31 December			**As at 30 November**
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payments paid under operating leases during the year/period				
Premises	–	409	364	510

At the balance sheet dates, the BEES Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December			As at 30 November
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	–	222	611	611
In the second to fifth year inclusive	–	–	2,264	2,264
Over five year	–	–	8,160	7,549
	–	222	11,035	10,424

Operating lease payments represent rentals payable by the BEES Group for certain of its office properties. Leases are negotiated for an average term of 1 to 2 years.

38. RETIREMENT BENEFIT SCHEME

Employees of the PRC subsidiaries of the BEES Group are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries of the BEES Group are required to contribute a certain percentage of the employee's payroll to the retirement benefits scheme to fund the benefits and are charged to the income statements when they became payable. The only obligation of the BEES Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The BEES also operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the income statements as they became payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the BEES Group in an independently administered fund. The BEES Group's employer contributions vest full with the employees when contributed in the MPF Scheme.

39. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Financial Information, the BEES Group entered into the following related party transactions, which in the opinion of the directors of BEES, were carried out in normal commercial terms and in the ordinary course of the BEES Group's business:–

	Year ended 31 December			Eleven months ended 30 November	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Consideration received from a minority shareholder of a subsidiary on disposal of a building	–	–	35,317	35,317	–
Consideration paid to a related company which the director of BEES has interests for acquisition of a subsidiary	1,195	–	15,000	15,000	–

During the Relevant Periods, no compensation of any kind was paid to the directors and other key management personnel of BEES.

40. CONTINGENT LIABILITIES

The BEES Group did not have significant contingent liabilities as at the respective balance sheet date.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements has been prepared for the BEES Group in respect of any period subsequent to 30 November 2007. No dividend has been declared, made or paid by the BEES Group in respect of any period subsequent to 30 November 2007.

Yours faithfully
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of a report received from the reporting accountant, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, prepared for the sole purpose, of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

29 February 2008

The Directors
IIN International Limited
Unit 2201A, 22/F
Bank of America Tower
12 Harcourt Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of IIN International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 151 to 161 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the Company's circular dated 29 February 2008 (the "Circular") in connection to the proposed acquisition of 100% equity interest in Beijing Enterprises Ever Source Limited ("BEES") and its subsidiaries (the "BEES Group", together with the Group hereinafter collectively referred to as the "Enlarged Group") (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information in respect of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 153 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source document, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Company's directors, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of :

– the financial position of the Group as at 30 September 2007 or any future date, or

– the results and cash flows of the Group for the year ended 30 September 2007 or any future periods.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1 Basis of preparation

The unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 30 September 2007 as set out in Appendix I of the Circular and the audited consolidated balance sheet of the BEES Group as at 31 December 2006 as extracted from the accountant's report as set out in Appendix II of the Circular, after making pro forma adjustment relating to the Acquisition, as if the Acquisition had been completed on 30 September 2007.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and the audited consolidated cash flow statement of the Group for the year ended 30 September 2007 as set out in Appendix I of the Circular and the audited consolidated income statement and the audited consolidated cash flow statement of the BEES Group for the year ended 31 December 2006 as extracted from the accountant's report as set out in Appendix II of the Circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 1 October 2006.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. As it is prepared for illustrative purpose only, it does not purport to predict what the results and cash flow of the Enlarged Group will be after the Acquisition or the financial position of the Enlarged Group will be upon the Acquisition. Because of this nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position, results and cash flows of the Enlarged Group upon the Acquisition.

2 Unaudited pro forma consolidated balance sheet

	The Group as at 30 September 2007	The BEES Group as at 31 December 2006	Pro forma adjustments					The Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
ASSETS AND LIABILITIES							
Non-current assets							
Intangible assets	–	6,300					6,300
Goodwill	1,269	2,728	588,198	*2 (i)*			592,195
Property, plant and equipment	17,373	3,620					20,993
Prepaid land lease payments	3,498	–					3,498
Interests in associates	–	4,534					4,534
Interests in a jointly controlled entity	–	9,774					9,774
Available-for-sale investments	–	280					280
	22,140	27,236					637,574
Current assets							
Inventories	4,776	67,921					72,697
Amounts due from customers for contract works	–	17,372					17,372
Trade receivables	36,910	72,189					109,099
Prepayments, deposits and other receivables	33,940	19,099					53,039
Financial assets at fair value through profit or loss	38,500	9,178					47,678
Amounts due from related parties	–	35,212					35,212
Pledged deposits	790	–					790
Time deposits	–	1,848					1,848
Cash and cash equivalents	91,400	82,200	(205,000)	*2 (ii)*	199,000	*3*	167,600
	206,316	305,019					505,335

	The Group as at 30 September 2007	The BEES Group as at 31 December 2006	Pro forma adjustments				The Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
Current liabilities							
Trade and bills payables	13,039	38,102					51,141
Accrued liabilities, deposits, received and other payables	31,183	10,627					41,810
Amount due to customers for contract works	–	28,087					28,087
Tax payables	5,214	1,138					6,352
Dividend payables	–	4,199					4,199
Amounts due to directors	334	–					334
Amounts due to immediate holding company	–	21,671					21,671
Amounts due to related parties	–	1,608					1,608
Borrowings	31,793	155,000					186,793
Convertible notes	–	–	138,839	*2 (iii)*			138,839
	81,563	260,432					480,834
Net current assets	124,753	44,587					24,501
Non-current liabilities							
Deferred tax liabilities	–	–	11,403	*2 (iv)*			11,403
Net assets	146,893	71,823					650,672
EQUITY							
Equity attributable to equity holders of the Company							
Share capital	230,667	292	77,708	*2 (v)*	62,400	*3*	371,067
Reserves	(99,899)	28,510	155,248	*2 (vi)*	136,600	*3*	220,459
	130,768	28,802					591,526
Minority interests	16,125	43,021					59,146
Total equity	146,893	71,823					650,672

Note to the unaudited pro forma consolidated balance sheet

1. Under HKFRS 3 "Business Combinations" ("HKFRS 3"), the Group will apply the purchase method to account for the acquisition of the BEES Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the BEES Group will be recorded on the consolidated balance sheet of the Group at their fair values at the date of completion. Any goodwill or discount arising on the Acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of the BEES Group at the date of completion. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

2. (i) Goodwill of approximately HK$588,198,000 arising from the Acquisition which is derived from the calculation as follow:

	As at 30 September 2007 *HK$'000*
Cash consideration	200,000
Fair value of shares issued by the Company *(Note 1)*	208,000
Issue of convertible notes *(Note 2)*	204,000
	612,000
Add: Transaction cost directly attributable to the Acquisition	5,000
Total Consideration	617,000
Less:	
Fair value of net assets of the BEES Group	(28,802)
Goodwill	588,198

Note:

(1) Pursuant to the Acquisition Agreement, the 100,000,000 ordinary shares of the Company with par value of USD0.01 each will be issued on the actual date of completion. The fair value of the shares to be issued is approximately HK$208,000,000 with reference to the market value of HK$0.208 per share of the Company's shares as at 28 September 2007, being the nearest trading date of 30 September 2007. The actual value of the Consideration Shares would be different on the Completion Date.

(2) Pursuant of the Acquisition Agreement, the amount of Convertible Notes issued for the Acquisition will depend on the profit attained by the BEES Group for the period of 24 months commencing from the Completion Date, which the amount to be issued will not exceed HK$204,000,000. The pro forma adjustment was therefore made on the assumption that the BEES Group has attained the profit requirement as stated in the Acquisition Agreement and the Convertible Notes will be issued in full on the Completion Date.

On completion, the fair value of the acquired identifiable assets, liabilities and contingent liabilities will have to be reassessed. The market value of Company's Shares at the date of completion, would also be different from the market value as at 30 September 2007. Accordingly, the actual goodwill at the Completion Date may be significantly different from the amount presented above.

(ii) The pro forma adjustment represented the consideration of HK$200,000,000 and the transaction cost of approximately HK$5,000,000 which was paid by cash.

(iii) The pro forma adjustment represented the liability components of the Convertible Notes issued for the Acquisition as if they were issued on 30 September 2007. The Convertible Notes issued are splitted into the equity component and liability component. The estimated fair value of the liability component of the Convertible Notes is approximately HK$138,839,000, determined using the discounted cash flow method and the estimated fair value of the equity component is approximately HK$65,161,000. The fair values of liability and equity components of the Convertible Notes are subject to change upon the Completion Date.

(iv) Deferred tax liabilities of approximately HK$11,403,000 represent the resulting deferred tax liability of the equity components of the Convertible Notes of approximately HK$65,161,000 at the Hong Kong Profits Tax rate of 17.5%.

(v) The pro forma adjustment of share capital comprised of the Consideration Shares issued at par at approximately HK$78,000,000 and elimination of the share capital of the BEES Group of approximately HK$292,000 upon the Completion Date.

(vi) The pro forma adjustments of reserves comprised of the followings:

	HK$'000
Share premium upon issued of the Consideration Shares	130,000
Equity component of the Convertible Notes, net of deferred tax liabilities	53,758
Elimination of pre-acquisition reserve of the BEES Group	(28,510)
	155,248

3. The Group will receive net proceeds of approximately HK$199,000,000 through placing in aggregate of 800,000,000 new shares at the placing price of HK$0.25 per placing share to two independent parties. HK$62,400,000 recognised in share capital represented 800,000,000 new shares issued at par value and HK$136,600,000 recognised in reserves represented the excess of the placing price of the new shares issued over their par value and net of the transaction cost of approximately HK$1,000,000 in the placing. The net proceeds from the placing were used as part of the cash consideration for the Acquisition and general working capital of the Group. Details of the placing were set out in the Company's announcement dated 14 January 2008.

4. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2007.

3(a) Unaudited pro forma consolidated income statement

	The Group for the year ended 30 September 2007	The BEES Group for the year ended 31 December 2006	Pro forma adjustments		The Enlarged Group for the year ended 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	106,369	91,451			197,820
Cost of sales	(94,293)	(54,748)			(149,041)
Gross profit	12,076	36,703			48,779
Other revenue and income	21,815	42,453			64,268
Discount on acquisition	–	973			973
Selling and distribution expenses	(4,441)	(21,146)			(25,587)
Administrative expenses	(14,308)	(34,140)			(48,448)
Other operating expenses	(8,032)	–			(8,032)
Profit from operations	7,110	24,843			31,953
Finance costs	(2,690)	(8,652)	(11,107)	*5*	(22,449)
Share of results of associates	–	(805)			(805)
Share of result of a jointly controlled entity	–	(786)			(786)
Profit before tax	4,420	14,600			7,913
Income tax expense	(1,153)	(1,148)	1,944	*6*	(357)
Profit for the year	3,267	13,452			7,556
Attributable to:					
Equity holders of the Company	2,594	9,371	(9,163)	*5, 6*	2,802
Minority interests	673	4,081			4,754
Profit for the year	3,267	13,452			7,556

3(b) Unaudited pro forma consolidated cash flow statement

	The Group as at 30 September 2007	The BEES Group as at 31 December 2006	Pro forma adjustments				The Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit (loss) before tax	4,420	14,600	(11,107)	7			7,913
Adjustments for:							
Interest income	(905)	(1,195)					(2,100)
Share-based payment expenses	779	–					779
Discount on acquisition	–	(973)					(973)
Depreciation of property, plant and equipment	2,185	684					2,869
Amortisation of prepaid land lease payments	78	–					78
Amortisation of intangible assets	–	1,050					1,050
Impairment loss of trade receivables	–	13,628					13,628
Club memberships written-off	379	–					379
Loss (gain) of property, plant and equipment	496	(2,130)					(1,634)
Allowance of obsolete stock	431	–					431
Finance costs	2,690	–	11,107	7			13,797
Fair value change in financial assets at fair value through profit or loss	(11,278)	(4,219)					(15,497)
Gain on disposal of held-for-trading financial assets	–	(2,105)					(2,105)
Waiver of trade payables	–	(12,914)					(12,914)
Share of results of associates and jointly controlled entity	–	1,591					1,591
Impairment loss of trade receivables	2,409	–					2,409
Impairment loss on trade receivables written back	(1,509)	–					(1,509)
Operating profit before working capital change	175	8,017					8,192
Decrease (increase) in inventories	802	(21,683)					(20,881)
(Increase) decrease in trade receivables	(5,707)	55,954					50,247
Increase in prepayments, deposits and other receivables	(31,221)	(2,954)					(34,175)
Decrease in amounts due to directors	(1,060)	–					(1,060)
Decrease in amount due to customers for contract works	–	(11,614)					(11,614)
Increase in amounts due to related parties	–	(34,658)					(34,658)
Increase in amounts due to immediate holding company	–	43,404					43,404
Decrease in trade and bills payables	(4,890)	(190)					(5,080)
Increase (decrease) in accrued liabilities, deposits received and other payables	10,415	(3,651)					6,764
Cash (used in) generated from operations	(31,486)	32,625					1,139
Interest paid	(2,690)	–					(2,690)
Net tax (paid) refund	(392)	(98)					(490)
Net cash (outflow) inflow from operating activities	(34,568)	32,527					(2,041)

	The Group as at 30 September 2007	The BEES Group as at 31 December 2006	Pro forma adjustments				The Enlarged Group as at 30 September 2007
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*Notes*	*HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received	905	1,195					2,100
Investment in available-for-sale financial assets	–	(150)					(150)
Acquisition of additional interest in subsidiaries	–	(97,220)					(97,220)
Purchase of property, plant and equipment	(4,870)	(2,792)					(7,662)
Proceeds from disposal of property plant and equipment	–	35,317					35,317
Purchase of financial assets at fair value through profit or loss	(27,222)	–					(27,222)
Proceeds from disposal of held-for-trading financial assets	–	8,068					8,068
Investment in associates	–	(5,156)					(5,156)
Acquisition of interest in subsidiaries	(1,140)	(43,370)			(205,000)	*8*	(249,510)
Increase in pledged deposits	(731)	–					(731)
Net cash (outflow) from investing activities	(33,058)	(104,108)					(342,166)
CASH FLOWS FROM FINANCING ACTIVITIES							
Drawdown of bank loans	19,656	–					19,656
Drawdown of other loans	12,158	–					12,158
Repayment of bank loans	(15,784)	(15,673)					(31,457)
Repayment of other loans	(11,737)	–					(11,737)
Repayment of ultimate holding company	–	108,352					108,352
Dividend paid	–	(9,904)					(9,904)
Net proceeds from issue of new shares	149,535	–			199,000	*8*	348,535
Net cash inflow from financing activities	153,828	82,775					435,603
Net increase in cash and cash equivalents	86,202	11,194					91,396
Cash and cash equivalents at beginning of year	3,458	71,105					74,563
Effect of foreign exchange rates, net	1,740	1,749					3,489
Cash and cash equivalents at end of year	91,400	84,048					169,448
Analysis of balances of cash and cash equivalents							
Cash and bank balances	91,400	84,048			(6,000)	*8*	169,448

Notes to the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement

5. Assuming the Convertible Notes were issued on 1 October 2006, the pro forma adjustment of approximately HK$11,107,000 represented the imputed interest to be expensed by the Group for the year ended 30 September 2007. This unaudited pro forma adjustment will have continuing income statement effect to the Enlarged Group, and the actual amount will vary according to the timing of the conversion and redemption of the whole or any part of the Convertible Notes and the applicable effective interest rates.

6. The pro forma adjustment of approximately HK$1,944,000 represented adjustment of the deferred tax effect of the Convertible Notes for the year ended 30 September 2007.

7. The pro forma adjustment of approximately HK$11,107,000 represented one year of imputed interest on the Convertible Notes, which was calculated at prevailing market interest rate.

8. The pro forma adjustment of approximately HK$199,000,000 and HK$205,000,000 represented the net proceeds from the placing of shares and the cash consideration together with transaction cost paid for the Acquisition respectively.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

Authorised and issued share capital

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) after the completion of the Two Placings and the Acquisition, and the Consideration has been satisfied (assuming the conversion rights of the Convertible Notes are exercised in full) will be as follows:

(a) As at the Latest Practicable Date

Authorised:		*US$*
8,000,000,000	Shares	80,000,000
Issued and fully paid or credited as fully paid:		
3,853,112,470	Shares	38,531,124

(b) After the completion of the Two Placings and the Acquisition, and the Consideration has been satisfied

Authorised		*US$*
8,000,000,000	Shares	80,000,000
Issued and fully paid or credited as fully paid:		
3,853,112,470	Shares as at the Latest Practicable Date	38,531,124
(i)	After the completion of the Two Placings and the Acquisition	
400,000,000	Placing Shares (AIG) to be issued upon completion of the Placing (AIG)	4,000,000
400,000,000	Placing Shares (VPL) to be issued upon completion of the Placing (VPL)	4,000,000
1,000,000,000	Consideration Shares to be issued upon the Completion	10,000,000
(ii)	After the Consideration has been satisfied	
680,000,000	Conversion Shares to be issued upon exercise in full of the conversion rights of the Convertible Notes	6,800,000
6,333,112,470	Shares	63,331,124

All Shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

All the Placing Shares (AIG), the Placing Shares (VPL), the Consideration Shares and the Conversion Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of allotment and issue of such new Shares.

3. DISCLOSURE OF INTERESTS

(1) Interest of directors and Chief Executive

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

(a) Long Position in Shares

Name of director	Interests in Shares	Capacity	Approximate Percentage of the interests	Interests in options	Aggregate interests	Approximate Percentage of the Aggregate Interests
Mr. Wu Shu Min *(Note 1)*	146,023,000	Beneficial owner	3.79%	13,000,000	159,023,000	4.13%
Mr. Xu Zhi Feng *(Note 2)*	4,376,000	Beneficial owner	0.11%	1,000,000	5,376,000	0.14%

Notes:

1. Mr. Wu Shu Min is interested in 146,023,000 Shares and 13,000,000 Shares issuable pursuant to exercise of share options of the Company held by him, details of such share options can be referred to part (b) of this section.

2. Mr. Xu Zhi Feng is interested in 4,376,000 shares and 1,000,000 Shares issuable pursuant to exercise of share options of the Company held by him, details of the share options can be referred to part (b) of this section.

(b) Long Position in underlying Shares pursuant to share option

Post-IPO Share Options

On 22 November 2001, the Company conditionally adopted a share option scheme (the "Post-IPO Share Option Scheme") for a period of ten years from the date on which the Scheme was adopted. The Post-IPO Share Option Scheme became unconditional upon the listing of the Shares on GEM on 30 November 2001. Under the Post-IPO Share Option Scheme, the Board was authorised, at its absolute discretion, to grant options ("Post-IPO Share Option") to employees, including directors of the Company or any of its subsidiaries, to subscribe for Shares under the terms of the Post-IPO Share Option Scheme. As at the Latest Practicable Date, the following Directors were interested in the following Post-IPO Share Options:

Name of director	Number of Post-IPO Share Options outstanding as at the Latest Practicable Date	Number of Share issuable pursuant to exercise of Post-IPO Share Options	Date of grant	Exercise period	Exercise price per share *HK$*	Approximate percentage shareholding upon exercise
Mr. Wu Shu Min	10,000,000	10,000,000	7 March 2002	7 March 2002 to 21 December 2011	0.465	0.26%
	3,000,000	3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.08%
Mr. Xu Zhi Feng	1,000,000	1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078	0.03%

Save as disclosed above, as at the Latest Practicable Date, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

(2) Interests of Substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, persons (other than Directors or chief executive of the Company as disclosed in above) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Long Positions

Name	Capacity	Interest in shares	Percentage of interests	Interests in options	Aggregate interests	Percentage of Aggregate interests
Lei Dong Ling *(Note 1)*	Interest of spouse	146,023,000	3.79%	13,000,000	159,023,000	4.13%
Environment Protection International Limited *(Note 2)*	Beneficial owner	185,000,000	4.80%	–	185,000,000	4.80%
Netvantage International Limited *(Note 2)*	Interest of controlled corporation	185,000,000	4.80%	–	185,000,000	4.80%
Tsutsumi Naoyuki *(Note 2)*	Interest of controlled corporation	185,000,000	4.80%	–	185,000,000	4.80%
China Standard Limited *(Note 3)*	Beneficial owner	900,000,000	23.36%	–	900,000,000	23.36%
Financial International Holdings Ltd. *(Note 4)*	Interest of controlled corporation	192,956,000	5.01%	–	192,956,000	5.01%
Cheung Kwan *(Note 4)*	Beneficial owner	192,956,000	5.01%	–	192,956,000	5.01%
AIG Funds *(Note 5)*	Beneficial owner	400,000,000	10.38%	–	400,000,000	10.38%
VPL Funds *(Note 6)*	Investment manager	400,000,000	10.38%	–	400,000,000	10.38%
Vendor *(Note 7)*	Beneficial owner	1,680,000,000	43.60%	–	1,680,000,000	43.60%

Notes:

1. Ms. Lei Dong Ling is the spouse of Mr. Wu Shu Min. Under SFO, Ms. Lei Dong Ling is deemed to be interested in 146,023,000 Shares and 13,000,000 Shares underlying share options in which Mr. Wu Shu Min is interested.

2. Environment Protection International Limited is wholly-owned by Netvantage International Limited ("Netvantage") which in turn is wholly-owned by Tsutsumi Naoyuki. Therefore, under SFO, Netvantage and Tsutsumi Naoyuki are deemed to be interested in 185,000,000 Shares.

3. These are the consideration shares and conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes issued to China Standard Limited pursuant to the acquisition of Holdco(1) and Holdco(2), details of which can be referred to the Company's circular dated 3 October 2007.

4. Financial International Holdings Limited is wholly-owned by Cheung Kwan. Therefore, under SFO, Cheung Kwan is deemed to be interested in 192,956,000 Shares.

5. These are the Placing Shares (AIG) issuable to certain funds, sub funds or accounts that AIG Global Investment Corporation (Asia) Limited ("AIG") is acting for as investment manager or investment advisor. AIG is wholly-owned by American International Assurance Company (Bermuda) Limited ("AIAC"), which in turn is wholly-owned by American International Reinsurance Company, Limited ("AIRC"), which in turn is wholly-owned by AIG Life Holding (International) LLC ("ALH"), which in turn is wholly-owned by American International Group, Inc. ("AIGI"). Under SFO, AIG, AIAC, AIRC, ALH and AIGI are deemed to be interested in the 400,000,000 Placing Shares (AIG).

6. These are the Placing Shares (VPL) issuable to certain funds, sub funds or accounts that Value Partners Limited ("VPL") is acting for as investment manager or investment advisor. VPL is wholly-owned by Value Partners Group Limited ("VPGL"), which in turn is 35.65% owned by Cheah Capital Management Limited ("CCML"), which in turn is wholly-owned by Cheah Company Limited ("CCL"), which in turn is wholly-owned by Hang Seng Bank Trustee International Ltd. ("HSBTRIL"), as trustee of The C H Cheah Family Trust, a discretionary trust. Therefore, under SFO, VPL, VPGL, CCML, CCL and HSBTRIL are deemed to be interested in 400,000,000 Placing Shares (VPL). Mr. Cheah Cheng Hye ("Mr. Cheah") is the founder of The C H Cheah Family Trust. Ms. To Hau Yin ("Ms. To") is the spouse of Mr. Cheah. Therefore, under SFO, Mr. Cheah and Ms. To are also deemed to be interested in 400,000,000 Placing Shares (VPL).

7. These are the Consideration Shares and Conversion Shares issuable to the Vender. The beneficial owner of the Vender who is an individual is also deemed to be interested in such shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. LITIGATION

A 51% owned subsidiary of the Group, Chengdu TM Network Corporation ("Chengdu TM") received a judgement notice dated 31 December 2006 (the "Judgement") which was issued by China International Economic And Trade Arbitration Commission (the "Commission").

The claim was filed by Siemens Communication Networks Ltd., Beijing ("Siemens") for, among other things, an outstanding payment of RMB6,889,331.56 in relation to a purchase contract dated 20 September 2004 (the "Contract") entered by Siemens and Chengdu TM for purchase and procurement of Juniper router equipment and service.

According to the Judgement, Chengdu TM shall within 30 days from the date of Judgement notice i) pay to Siemens the outstanding amount of RMB6,889,331.56; ii) pay to Siemens the penalty sum of RMB344,466.58; and iii) pay to Siemens the arbitration fee of RMB96,654.

As set out in the announcement of the Company dated 13 August 2007, the matter was resolved by a settlement agreement (the "Settlement Agreement") signed between Siemens and Hunan IIN International Company Limited ("Hunan IIN"), a wholly-owned subsidiary of the Company and being a guarantor for Chengdu TM in this case, on 8 August 2007. Pursuant to the Settlement Agreement, Hunan IIN paid a total of RMB1,020,000 to Siemens and Simens withdrew the Judgement from the Commission.

Save as disclosed above, as at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Enlarged Group) have been entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the Acquisition Agreement;

(b) the Placing Agreement (AIG);

(c) the Placing Agreement (VPL);

(d) an agreement dated 30 July 2007 entered into between China Standard Limited and the Company (as amended by two supplemental agreements dated 13 August 2007 and 28 September respectively) for the sale and purchase of the entire registered capital of Holdco(1) and Holdco(2) for an aggreate consideration of HK$440,000,000;

(e) a placing agreement dated 11 September 2007 entered into between Pacific Foundation Securities Ltd. and the Company for placing of 390,752,000 new shares of the Company at HK$0.198 per share;

(f) a settlement agreement dated 8 August 2007 entered into between Hunan IIN International Co. Ltd. and Siemens in resolving the litigation initiated by Siemens against Chengdu TM Network Corporation, a subsidiary of 51% of its equity interest indirectly owned by the Company, for an outstanding amount of approximately RMB6,889,331.56;

(g) a placing agreement dated 5 June 2007 entered into between Quam Securities Co. Ltd. and the Company for placing of 1,000,000,000 new shares of the Company at HK$0.12 per share; and

(h) a placing agreement dated 14 May 2007 entered into between Quam Securities Co. Ltd. and the Company for placing of 325,600,000 new shares of the Company at HK$0.095 per share.

6. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 30 September 2007, being the date to which the latest audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

8. COMPETING INTERESTS

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

9. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors of the Company.

On 15 February 2008, the Board announced that Mr. Li Junlin ("Mr. Li") was not re-elected as an independent non-executive Director by Shareholders in the annual general meeting of the Company held on 15 February 2008. Following the resignation of Mr. Li, the audit committee currently comprises two independent non-executive Directors, which falls below the minimum number as required under Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules respectively. In order to meet the requirements under the GEM Listing Rules, the company will appoint an additional independent non-executive Director who will also be appointed as an additional member of the audit committee of the Company. As at the Latest Practicable Date, the members of the audit committee were Mr. Liu Yang and Mr. Jin Dunshen. Mr. Jin Dunshen was the chairman of the audit committee. Details of the members of the Audit Committee are set out below:

Mr. Liu Yang (劉陽), aged 35, is a senior counsel of Beijing Seafront Law Office. Mr. Liu graduated from the University of International Business and Economics with a bachelor's degree in law in 1995, completed the post-graduate course of international trade law in the University Institute of European Studies, Turin Italy in 2001, and graduated from the University of California, Berkeley School of Law with a master's degree in law in 2003. Mr. Liu has obtained profound experiences in handling the international business projects, especially on foreign investment, international mergers and acquisitions, financing by overseas listing of domestic enterprises. He also had years of working experiences in Chinese central governmental authority in charge of foreign investment. Mr. Liu has participated in drafting the majority of China's laws and regulations with respect to foreign investment since 1995 and participated in the approval process for over 800 foreign investment projects in China.

Mr. Jin Dunshen (金敦申), aged 53, is one of the founders and was once a deputy director of Shanghai Chang Xin Certified Public Accountants Co. Ltd. Mr. Jin has been a certified public accountant in the PRC since 1994 and later a certified assets valuer in the PRC.

10. EXPERT AND CONSENT

The qualifications of the expert who has given opinion in this circular are as follows:

Name	Qualification
HLB Hodgson Impey Cheng ("HLB")	Chartered Accountants Certified Public Accountants

As at the Latest Practicable Date, HLB had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and had no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group since 30 September 2007, being the date to which the latest published audited accounts of the Company were made up.

HLB has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and the references to its name in the form and context in which they appear.

11. PROCEDURES FOR DEMANDING A POLL BY THE SHAREHOLDERS

Procedures for Demanding a Poll at General Meeting

According to Article 66 of the Articles of Association, a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent. (5%) or more of the total voting rights at such meeting.

12. GENERAL INFORMATION

(a) The registered office of the Company is located at Huntlaw Building, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Hong Kong branch share registrar and transfer office is located at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) The head office and principal place of business of the Company in Hong Kong is located at Unit 2201A, 22/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(c) The compliance officer of the Company is Mr. Wu Shu Min.

(d) The company secretary of the Company is Ms. Wong Lai Yuk and Ms. Wong is an associate member of The Hong Kong Institute of Chartered Secretaries.

(e) The qualified accountant of the Company is Mr. Jeffrey Soo Kim Fui and Mr. Soo is a fellow member of The Association of Chartered Certified Accountants.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) copy of each of the material contracts referred to in the paragraph headed "material contracts" in this appendix;

(c) the accountants' report on BEES Group, the text of which is set out in Appendix II to this circular;

(d) the report from HLB Hodgson Impey Cheng relating to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(e) the letter of consent referred to in the paragraph headed "expert and consent" in this appendix;

(f) the annual reports of the Company for each of the three years ended 30 September 2005, 2006 and 2007 and the first quarterly report of the Company for the three months ended 31 December 2007;

(g) the circular dated 3 October 2007 in relation to an acquisition of the entire registered capital of Holdco(1) and Holdco(2); and

(h) this circular.

IIN INTERNATIONAL LIMITED
國訊國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of IIN International Limited (the "**Company**") will be held at 10:30 a.m. on Monday, 17 March 2008 at K-2 Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong for the purposes of considering and, if thought fit, passing with or without modifications the Resolutions below of the Company:

ORDINARY RESOLUTIONS

1. **"THAT:**

(a) the acquisition agreement dated 21 December 2007 ("**Acquisition Agreement**") entered into between Ever Sincere Investment Limited ("**Ever Sincere**") as vendor, and II Networks International Limited, a subsidiary of the Company, as purchaser, in respect of the acquisition of the entire issued share capital of Beijing Enterprises Ever Source Limited, a copy of which has been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification, and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;

(b) (i) the creation and issue of the note certificate(s) (the "**Note Certificate(s)**") by the Company in relation to the notes (the "Convertible Notes") in the aggregate principal amount of up to HK$204,000,000 pursuant to the terms of the Acquisition Agreement; (ii) the issue of the Convertible Notes pursuant to the Note Certificate(s); and (iii) the allotment and issue of new shares ("**Conversion Shares**") of US$0.01 each (subject to adjustment) in the capital of the Company upon the exercise of the conversion rights attached to the Convertible Notes be and are hereby approved; and the directors of the Company be and are hereby authorised to allot and issue the Convertible Notes and the Conversion Shares accordingly;

(c) (i) the allotment and issue of 1,000,000,000 new shares of US$0.01 each in the capital of the Company ("**Consideration Shares**") to Ever Sincere subject to and in accordance with the terms and conditions of the Acquisition Agreement be and is hereby approved; and (ii) the directors of the Company be and are hereby authorised to allot and issue the Consideration Shares accordingly; and

* *For identification purposes only*

(d) the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Acquisition Agreement, and all other documents in connection thereunder and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Acquisition Agreement and all other documents in connection thereunder which in their opinion is necessary or desirable to effect or implement any other matters referred to in this Resolution."

2. "THAT:

(a) the subscription agreement dated 21 December 2007 ("**Placing Agreement (AIG)**") entered into between AIG Global Investment Corporation (Asia) Limited and the Company in respect of the placing of 400,000,000 new shares of US$0.01 each in the share capital of the Company ("**Placing Shares (AIG)**"), a copy of which has been produced to the meeting marked "B" and signed by the Chairman of the meeting for the purpose of identification, and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;

(b) (i) the allotment and issue of the Placing Shares (AIG) subject to and in accordance with the terms and conditions of the Placing Agreement (AIG) be and is hereby approved; and (ii) the directors of the Company be and are hereby authorised to allot and issue the Placing Shares (AIG) accordingly;

(c) the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Placing Agreement (AIG) and all other documents in connection thereunder and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Placing Agreement (AIG) and all other documents in connection thereunder which in their opinion is necessary or desirable to effect or implement any other matters referred to in this Resolution."

3. "THAT:

(a) the subscription agreement dated 21 December 2007 ("**Placing Agreement (VPL)**") entered into between Value Partners Limited and the Company in respect of the placing of 400,000,000 new shares of US$0.01 each in the share capital of the Company ("**Placing Shares (VPL)**"), a copy of which has been produced to the meeting marked "C" and signed by the Chairman of the meeting for the purpose of identification, and the execution thereof and implementation of all transactions thereunder be and are hereby approved, ratified and confirmed;

(b) (i) the allotment and issue of the Placing Shares (VPL) subject to and in accordance with the terms and conditions of the Placing Agreement (VPL) be and is hereby approved; and (ii) the directors of the Company be and are hereby authorised to allot and issue the Placing Shares (VPL) accordingly;

(c) the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Placing Agreement (VPL) and all other documents in connection thereunder and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Placing Agreement (VPL) and all other documents in connection thereunder which in their opinion is necessary or desirable to effect or implement any other matters referred to in this Resolution."

By Order of the Board of
IIN International Limited
Wu Shu Min
Chairman

Hong Kong, 29 February 2008

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if such member is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.

3. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. As at the date of this notice, the Board comprises Mr. Wu Shu Min, Mr. Xu Zhi Feng and Mr. Fu Hui Zhong as executive Directors, Mr. Liu Yang and Mr. Jin Dunshen as independent non-executive Directors.

This notice will remain on the "Latest Company Announcement" page on the GEM website at www.hkgem.com for at least 7 days from the date of publication and on the website of the Company at www.iini.com.