# 2007/08
Annual Report

Brighter Horizon

CGS

**CHINA GROUND SOURCE ENERGY LIMITED**

(Formerly known as IIN International Limited)

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 8128

# CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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*This report, for which the directors of China Ground Source Energy Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to China Ground Source Energy Limited. The directors of China Ground Source Energy Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive directors

Wu Shu Min
Xu Zhi Feng

### Non-executive director

Lu Chuan

### Independent non-executive directors

Zhang Lai
Cai Xin

## REGISTERED OFFICE

Huntlaw Building, P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1303, York House, The Landmark
15 Queen's Road Central
Central
Hong Kong

## COMPLIANCE OFFICER

Wu Shu Min

## QUALIFIED ACCOUNTANT

Jeffrey Soo Kim Fui

## COMPANY SECRETARY

Wong Lai Yuk

## AUDIT COMMITTEE

Cai Xin *(Chairman)*
Zhang Lai

## REMUNERATION COMMITTEE

Cai Xin *(Chairman)*
Zhang Lai

## AUTHORISED REPRESENTATIVES

Wu Shu Min
Wong Lai Yuk

## PRINCIPAL BANKER

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## LEGAL ADVISER

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

## AUDITORS

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

## STOCK CODE

8128

## COMPANY WEBSITE

www.iini.com

# Chairman's Statement

To all shareholders of China Ground Source Energy Limited

It is my pleasure to present, on behalf of the Board of Directors, the results of China Ground Source Energy Limited (the "Company") together with its subsidiaries (collectively referred to as "CGS" or the "Group") for the financial year ended 30 September 2008.

During the financial year under review, the Company took the initiative in revising its business development direction based on the changes in the hotspots of PRC's future economic development. With its untiring efforts, the Company at last made a breakthrough.

With the support of a number of major funds and by means of a number of share placing exercises, the Company successively completed two major business acquisitions in environmental protection and shallow ground energy utilisation, offering a solid foundation for its future development.

The acquisition of the environmental protection business enabled the Company to gain access to the environmental protection sector, an area to which the PRC will make key financial commitments in the future. As a result of the economic development in recent years, the PRC has expressed growing concerns about the environmental protection issue, as witnessed by the introduction of an array of relevant legislation. Based on the prediction by the State Environmental Protection Administration, PRC's commitment to environmental protection will amount to thousands of billions of dollars in the next five years, more than a double over the past five years. During the year under review, the Company experienced a steady growth in its sewage treatment operations in the environmental protection segment, and made significant progress in such projects as carbon dioxide emission reduction (clean development mechanism "CDM") and ash treatment.

The acquisition of the shallow ground energy utilization business enabled the Company to gain access to the core technology in the "Single well circulation" central liquid cooling/heating source environmental system (單井抽灌式中央液態冷熱源環境系統) to provide heating and cooling for buildings and heating of domestic water with shallow ground energy collected by the system. As shallow ground energy is a renewable energy which will definitely receive support and approval from the Chinese government. The Company has previously carried out some major projects such as National Great Theater, and has won acclaim and high appraise for these projects from its clients, developing positive publicity for the further promotion of the Company's business.

To reflect the change in its operation focus, the Company was renamed from "IIN International Limited" to "China Ground Source Energy Limited" during the period under review.

Despite the existing weakening transmission business, the Company recorded a substantial increase in turnover and profit attributable to shareholders due to the satisfactory development of the newly acquired businesses, delivering excellent profit results for consecutive financial years.

# Chairman's Statement

Looking forward to the future, apart from the fact that the recent global financial crisis is affecting other parts of the world, the PRC will also come under tremendous pressure from the deterioration of the environment and depletion of energy as a result of accelerating industrialisation and urbanisation processes in the country. However, given PRC's growing concerns about environmental protection and shallow ground energy utilisation, persistent introduction and improvement of relevant legislation as well as strengthening law enforcement, we anticipate that the environmental protection and new energy utilisation sectors in the PRC will continue to grow rapidly.

Facing such big opportunities, the Company will in the future:

1. open up new businesses aggressively, strive to increase its market share, continue to maintain its leading market position in the new businesses and gradually withdraw from the telecommunications network solutions segment to ensure that the Group focuses its human and material resources on new business development.

2. integrate the Group's business team by building it into an aggressive and united team.

With our strong technical capability and market reputation as well as arduous efforts at all levels, the Company believes our client base will be broadening and our business, technology and profitability levels will be enhancing in the future, finally enabling us to deliver better returns for our shareholders, partners and staff.

I would like to take this opportunity to express my heart-felt gratitude to our shareholders, clients, business partners and suppliers for their ongoing support, and my thanks to all the directors and staff for their efforts and contributions made over past years.

Sincerely

**Wu Shu Min**
*Chairman*

# Management Discussion and Analysis

## FINANCIAL REVIEW

Turnover consists primarily of revenue from sales of shallow ground energy utilisation system and installation services, the provision of services in relation to environmental protection, manufacturing and marketing of communication cables and optical cables and securities investments and trading.

The turnover of the Group for the financial year ended 30 September 2008 increased by 99.8% from 2007, due to sales generated from the newly acquired environmental protection business and shallow ground energy utilisation business.

The Group recorded a net profit attributable to equity holders of approximately HK$9.2 million versus approximately HK$2.6 million of last year.

## GROSS PROFIT MARGIN

The gross profit margin for 2008 was 33.4% compared to 19.9% in 2007. The increase was due to the consolidation of the two segments of shallow ground energy utilisation and environmental protection during the fiscal year with different business cost structure.

## OTHER REVENUE AND INCOME

Total other revenue and income increased by HK$15.7 million to HK$26.2 million during 2008 as compared to HK$10.5 million in 2007, primarily due to the reversal of allowance for doubtful debts.

## SELLING & DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES ("SD&A")

Expenditures for SD&A an increased by HK$40.1 million or 213.7% to HK$58.8 million in 2008 compared to 2007. These increases were primarily due to an increase in the number of employees as well as corporate activities related to the growth of the Group since the acquisition of Shenzhen Lidesui Huanbao Jishu Company Limited ("Lidesui"), Shenzhen Lisai Gardens Luhua Company Limited ("Lisai Gardens") and Beijing Enterprises Ever Source Limited ("BEES"). There was also increased professional costs of audit and legal services relating to the acquisition and share placement activities.

## SEGMENTAL INFORMATION

The Company reportable operating segment consists of shallow ground energy utilisation segment, environmental protection segment, transmission segment and securities investments and trading segment.

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

## FINANCIAL RESOURCES AND LIQUIDITY

As at 30 September 2008, the Group had net current assets of HK$184.3 million of which HK$520.7 million was cash and short-term assets, which increased by 47.7% compared to the 30 September 2007 net current assets of HK$124.8 million. The principal components of this net increase were cash generated from operating activities of HK$186.3 million. These increases were partially offset by payments for acquisition of property, plant and equipment of HK$22.4 million and payments made in connection with business acquisitions, net of cash required, of HK$242.7 million.

The Company believes its existing balances of cash, cash equivalents and short-term assets will be sufficient to satisfy its working capital needs, capital expenditure, outstanding commitments and other liquidity requirements associated with its existing operation over the next 12 months.

## CHARGES OF GROUP ASSETS

Details of the charge on Group assets are set out in note 33 to the consolidated financial statements of this report.

# Management Discussion and Analysis

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi.

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

As at 30 September 2008, the Group had no foreign exchange contracts.

## GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank and other loans and convertible notes) to the equity (including all capital and reserves) of the Group, increased to 30% for the period under review (2007: 24%).

## EMPLOYEES

As at 30 September 2008, the Company has had approximately 600 employees. The staff costs including directors' emoluments increased to HK$21.0 million for the period under review due to consolidation of new businesses.

The emolument policy of the Group adopted that remuneration package will be offered on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are approved by the Board of Directors based on the recommendations made by the Remuneration Committee of the Company.

## SHARE OPTION SCHEMES

At present, the Group has a share option plan, whereby directors and employees of the Group may be granted stock options for subscription of shares of the Company. Details of the share option plan are set out in Note 40(b), "Share Option Plan" to the consolidated financial statements of this report.

## CONTINGENT LIABILITIES

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

## DIVIDEND

The Board of Directors do not recommend the payment of a final dividend for the year under review (2007: Nil).

## CAPITAL STRUCTURE

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

On 9 October 2007, the Company completed a share placement to place an aggregate of 390,752,000 shares at the price of HK$0.198 per placing share.

On 7 November 2007, the Company issued a total of 500,000,000 new shares at an issue price of HK$0.40 per share, being part of the consideration of the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.

On 31 March 2008, the Company issued a total of 1,000,000,000 new shares at an issue price of HK$0.30 per share, being part of the consideration of the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.

On 31 March 2008, the Company completed a share placement to place an aggregate of 800,000,000 shares at the price of HK$0.25 per placing share, details of which can be referred to the Company's circular dated 29 February 2008.

# Management Discussion and Analysis

During the year ended 30 September 2008, 5,000,000 share options were exercised at HK$0.15 per share.

As at 30 September 2008, 5,653,112,470 shares of the Company were issued and fully paid.

## CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of the capital commitment are set out in note 49 to the consolidated financial statements of this report.

## FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OR CAPITAL ASSETS

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

## MAJOR ACQUISITION AND DISPOSALS

During the year ended 30 September 2008, II Networks International Limited, a wholly owned subsidiary of the Company, executed the following transactions:

- acquiring entire interests in Lidesui and Lisai Gardens 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.

- acquiring entire interests in BEES at an aggregate consideration of HK$704 million. Details of the acquisition are set out in the Company's circular dated 29 February 2008 and this transaction was completed on 31 March 2008.

## BUSINESS REVIEW AND OUTLOOK

### ENVIRONMENTAL PROTECTION

Environmental protection business which the Group operates mainly through Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai"), a subsidiary 100% jointly owned by Lidesui and Lisai Gardens. Currently, Shenzhen Lisai's turnover is mainly derived from the registered clean development mechanism ("CDM") project and the Guanlan River sewage treatment project. During the year, all existing projects were operating according to the schedule at the beginning of the year, and the new projects were progressing vigorously as well.

During the year under review, carbon dioxide emission reduction for the Xiaping landfill CDM project had been certified, and prepayments had been obtained from the clients. Shenzhen Lisai is aggressively making coordination for the Xiaping Landfill site project and enhancing the controllability of the collection system. In another move, Shenzhen Lisai is stepping up its investment efforts by adopting measures such as opening up more gas wells so as to increase the amount of collected landfill gas as much as possible. It is anticipated that CDM output will increase substantially within the next financial year as a result of the increase in the amount of landfill gas.

Meanwhile, the combustibles purification landfill gas project ("CPLG Project") will commence production in a timely manner when the amount of gas from the Xiaping landfill site meets CDM production schedule. It is believed that the CPLG Project will generate substantial revenue as well with the municipal government's efforts to enhance the promotion and popularity of clean fuel, and the rising prices of energy.

The Guanlan River sewage treatment project is operating steadily. Despite the suspended production for nearly one month due to rainstorms during the third quarter, the Company has tried to mitigate the adverse effect with the efforts at all levels of the Company so that the output for the whole year reached last year's level.

The ash treatment project for the incineration of household garbage in Shenzhen city ("ash treatment project") was debugged and put into trial operation upon completion in September 2008. The project is now operating smoothly on a trial basis. The Company is filing an application for an operational qualification pursuant to the relevant national regulations. The project is expected to achieve mass production in the next financial year, becoming a new business growth point of the Company.

# Management Discussion and Analysis

## SHALLOW GROUND ENERGY UTILISATION

Shallow ground energy utilisation is the principal business of BEES. By employing its patented core technology – "single well circulation" central liquid cooling/heating source environmental system (單井抽灌式中央液態冷熱源環境系統), BEES provides heating and cooling for buildings and heating of domestic water with shallow ground energy collected by the system. This acquisition was completed on 31 March 2008.

Given shallow ground energy as a renewable energy, BEES has secured tremendous support and approval from the Chinese government and succeeded in utilising ground energy in different buildings as a stable supply of heating. Upon completion of the acquisition, BEES witnessed satisfactory business development largely because the Company, being a ground source energy collection and utilisation system designer and developer, has been able to integrate the investment, construction and energy conservation operations of ground source energy as an alternative energy for heating and cooling which further enhances its profitability. In addition, BEES also benefits from the implementation of the PRC Renewable Energy Law and the 11th Five-Year Plan as well as the introduction of a series of development policies in support of energy conservation and emissions reduction.

As the pace of urbanisation and new rural construction projects in China accelerates, the increased consumption of conventional energy for heating in buildings has a growing impact on the environment. BEES's utilisation of shallow ground energy as an alternative energy for heating and cooling can minimise the reliance upon the consumption of coal for conventional power generation which, in turn, will achieve energy conservation and environmental protection. As such, shallow ground energy, a green, environmental friendly energy product, will hold enormous market potential. BEES believes that the demand for the ground source energy utilisation system, which operates at costs equivalent to the initial costs of conventional energy to provide ground source energy as an alternative energy for heating, will enter a period of fast growth.

Seeing the increased market demand for proprietary technology, BEES will aim to enhance its technology and expand the area of technology applications. BEES expects that the operating income from the enhanced technology services will become another profit growth point.

## TRANSMISSION

The Group's transmission business is operated by Wujiang Shengxin Optoelectronics Technology Co., Ltd. During the year, turnover from this business slightly decreased as compared with last year mainly attributable to a slowdown in market demand as a result of the restructuring of the telecommunications industry, compounded by a further decline in relevant investments following the opening of the Olympic Games in China. In addition, the gross profit margin of the business fell as compared with last year due to rising operational costs and some changes in the taxation preferential policy. The Group anticipates that the intensifying competition in the telecommunications sector will continue to exert pressure on the turnover and gross profit margin of the business. This explains precisely why the Group has been making ongoing efforts to identify new business opportunities for broadening its business base.

## SECURITIES INVESTMENT

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

# Directors and Senior Management Profiles

## EXECUTIVE DIRECTORS

**Mr. Wu Shu Min** (吳樹民), aged 45, Chairman of the Company, is responsible for the strategic direction of the Group. He has over 22 years experience in the PRC telecommunications industry, and started his career in the Science Research Institute of Hunan Telecommunications in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as its China representative before he established Hunan Internet Information Networks Company Ltd. in 1997.

**Mr. Xu Zhi Feng** (許志峰), aged 45, was appointed as executive Director of the Company on 7 July 2006. Mr. Xu holds a Bachelor's degree in Mathematics from Jinan University (暨南大學). Prior to joining the Group in 2002, he had worked for The Industrial and Commercial Bank of China and was responsible for credit and financing work during 1985-1990. He also has over 12 years experience in telecommunications industry.

## NON-EXECUTIVE DIRECTOR

**Mr. Lu Chuan** (呂川), aged 38, is a graduate from Huazhong University of Science and Technology, holding a bachelor degree in engineering and a doctorate in management studies. He previously worked in a financial institution in China for a number of years and is currently working in a listed company in Hong Kong responsible for operations relating to financial asset investments. He has over ten years experience in business administration, finance and investment.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhang Lai** (張萊), aged 52, graduated from the Earth Science College of the Changchun University (長春地質學院) and obtained a Master's degree in engineering in 1992, majoring in hydrogeology and engineering geology. He possesses the qualification of a professor-grade engineer.

Mr. Zhang was a senior engineer and the captain of The First Hydrogeology Survey Brigade (第一水文地質隊) of the General Bureau of China Coal Geology. Mr. Zhang is currently a deputy chief engineer of the Hydrogeology Department of the General Bureau of China Coal Geology.

Mr. Zhang carried out research on the water source heat pump and ground source heat pump systems as early as in 1998. He conducted research and development work, including the manufacture, design, and installation of mainframe in collaboration with Tsinghua University, Tianjin University, and Hebei Engineering University. He has extensive experience in this field and has received awards and recognitions from the nation.

**Ms. Cai Xin** (蔡欣), aged 39, graduated from Wuhan College of Marine Traffic Engineering (武漢水運工程學院), possessing an undergraduate qualification and a bachelor degree in engineering. She is a certified public accountant, certified public valuer and registered tax agent in the PRC. She previously worked in several audit firms and has extensive audit experience. She also has over ten years experience in financial accounting and management and is well acquainted with corporate accounting system, accounting methods, accounting policies implemented by PRC listed companies and relevant financial regulations of PRC such as economic law, tax law, securities law and company law.

# Directors and Senior Management Profiles

## SENIOR MANAGEMENT

**Mr. Xu Shengheng** (徐生恒), aged 46, is the Managing Director of BEES, possessed an International EMBA from the Hong Kong University of Science and Technology. He has devoted his efforts in the promotion, research and development of shallow ground energy as an alternative energy for heating. The single well circulation ground heat exchange technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

**Mr. Huang Hanjian** (黃漢健), aged 45, is the director of Shenzhen Lisai. Mr. Huang graduated from South China University of Technology in 1994. He commenced the business of Shenzhen Lisai in 2002 and has over 15 years working experience in the field of environmental protection and related facilities.

**Mr. Zhang Guangyu** (張廣裕), aged 40, is the general manager of Shenzhen Lisai. Mr. Zhang holds a bachelor's degree in environmental engineering from Tsinghua University and a master's degree in engineering from Tsinghua University. Mr. Zhang has been pursuing his career in environmental protection industry for over 15 years.

**Mr. Wang Wei Ping** (王偉平), aged 42, is the Managing Director of Shengxin, completed secondary school and then continued his studies in the manufacturing of communication cables and fibre optic cables. He has over 19 years working experience in the industry of communication cables and optical fibre cables.

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 September 2008.

## PRINCIPAL ACTIVITIES

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

An analysis of the Group's performance for the year ended 30 September 2008 by business segments are set out in note 9 to the consolidated financial statements.

## RESULTS

The Group's profit for the year ended 30 September 2008 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 25 to 94.

## SUMMARY OF FINANCIAL INFORMATION

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

### Results

| | **Year ended 30 September** | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | *(Note)* | *(Note)* |
| Turnover | **235,037** | 117,647 | 71,013 | 60,069 | 113,944 |
| Profit/(loss) before income tax | **10,365** | 4,420 | (13,232) | (86,334) | (51,625) |
| Income tax credit/(expense) | **455** | (1,153) | (1,056) | (240) | (920) |
| Profit/(loss) for the year | **10,820** | 3,267 | (14,288) | (86,574) | (52,545) |
| Attributable to: | | | | | |
| Equity holders of the Company | **9,170** | 2,594 | (16,204 ) | (82,097) | (48,462) |
| Minority interests | **1,650** | 673 | 1,916 | (4,477) | (4,083) |
| | **10,820** | 3,267 | (14,288) | (86,574) | (52,545) |

# Report of the Directors

## Assets, liabilities and minority interests

| | As at 30 September | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | | *(Note)* | *(Note)* |
| Total assets | **1,553,875** | 228,456 | 60,448 | 75,502 | 167,287 |
| Total liabilities | **(599,987)** | (81,563) | (72,178) | (80,179) | (92,229) |
| Minority interests | **(55,343)** | (16,125) | (10,195) | (7,981) | (12,458) |
| Equity attributable to equity holders of the Company | **898,545** | 130,768 | (21,925) | (12,658) | 62,600 |

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

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

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

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

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

# Report of the Directors

## DISTRIBUTABLE RESERVES

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 30 September 2008, the Company's reserve available for distribution amounted to HK$249,659,000 after net off the accumulated losses of the Company. Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 September 2007, the Company did not have any reserves available for distribution as at 30 September 2007.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 55% of the total sales for the year and sales to the largest customer included therein amounted to approximately 19%. Purchases from the Group's five largest suppliers accounted for approximately 55% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 40%.

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

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Mr. Wu Shu Min
Mr. Fu Hui Zhong (resigned on 30 April 2008)
Mr. Xu Zhi Feng

### Non-executive director:

Mr. Lu Chuan (appointed on 1 September 2008)

### Independent non-executive directors:

Mr. Liu Yang (resigned on 17 December 2008)
Mr. Li Junlin (resigned on 15 February 2008)
Mr. Jin Dunshen (resigned on 9 April 2008)
Mr. Zhang Lai (appointed on 14 March 2008)
Ms. Cai Xin (appointed on 9 April 2008)

*Note:* In accordance with articles 86 and 87 of the Company's articles of association, each of Messrs. Wu Shu Min, Xu Zhi Feng, Lu Chuan, Zhang Lai, and Ms. Cai Xin will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. After the resignation of Mr. Liu Yang as independent non-executive Director of the Company on 17 December 2008, the Company has failed to comply with the Rule 5.05(1) of the GEM Listing Rules which requires a listed issuer should have at least 3 independent non-executive directors.

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

# Report of the Directors

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 10 to 11 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 15 and 50 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 30 September 2008, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long position in shares and equity derivatives

| | Number of issued ordinary shares of US$0.01 each in the Company held and the capacity | | | | | |
|---|---|---|---|---|---|---|
| **Name of director** | **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 | 2.58% | 13,000,000 | 159,023,000 | 2.81% |
| Mr. Xu Zhi Feng *(Note 2)* | 4,376,000 | Beneficial owner | 0.08% | 1,000,000 | 5,376,000 | 0.10% |

*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. Details of such share options can be referred to Note 40(b), "Share Option Plan" to the consolidated financial statements of this report.

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. Details of such share options can be referred to Note 40(b), "Share Option Plan" to the consolidated financial statements of this report.

# Report of the Directors

Save as disclosed above, as at 30 September 2008, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SHARE OPTION SCHEMES

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

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 30 September 2008, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

### Long Positions

| Name | Capacity | Interest in shares | Percentage of interests in shares | Interests under equity derivatives | Aggregate interests | Percentage of aggregate interests |
|---|---|---|---|---|---|---|
| Lei Dong Ling *(Note 1)* | Interest of spouse | 146,023,000 | 2.58% | 13,000,000 | 159,023,000 | 2.81% |
| China Standard Limited *(Note 2)* | Beneficial owner | 500,000,000 | 8.84% | 400,000,000 | 900,000,000 | 15.92% |
| Financial International Holdings Ltd. *(Note 3)* | Beneficial owner | 452,652,000 | 8.01% | – | 452,652,000 | 8.01% |
| Cheung Kwan *(Note 3)* | Interest of controlled corporation | 452,652,000 | 8.01% | – | 452,652,000 | 8.01% |
| American International Group, Inc. *(Note 4)* | Investment manager | 400,000,000 | 7.08% | – | 400,000,000 | 7.08% |
| Value Partners Limited *(Note 5)* | Investment manager | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| Value Partners Group Limited *(Note 5)* | Interest of controlled corporation | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |

# Report of the Directors

| Name | Capacity | Interest in shares | Percentage of interests in shares | Interests under equity derivatives | Aggregate interests | Percentage of aggregate interests |
|---|---|---|---|---|---|---|
| Cheah Capital Management Ltd. *(Note 5)* | Interest of controlled corporation | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| Cheah Company Limited *(Note 5)* | Interest of controlled corporation | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| Hang Seng Bank Trustee International Ltd. *(Note 5)* | Trustee | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| Cheah Cheng Hye *(Note 5)* | Founder of a discretionary trust | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| To Hau Yin *(Note 5)* | Interest of spouse | 395,624,000 | 6.99% | – | 395,624,000 | 6.99% |
| Ever Sincere Investment Limited *(Note 6)* | Beneficial owner | 1,000,000,000 | 17.69% | 680,000,000 | 1,680,000,000 | 29.72% |
| Long Dynasty Holdings Ltd. *(Note 7)* | Interest of controlled corporation | 1,000,000,000 | 17.69% | 680,000,000 | 1,680,000,000 | 29.72% |
| Xu Shengheng *(Note 7)* | Interest of controlled corporation | 1,000,000,000 | 17.69% | 680,000,000 | | |
| | Interest of spouse | 2,808,000 | 0.05% | – | 1,682,808,000 | 29.77% |
| Luk Hoi Man *(Note 7)* | Beneficial owner | 2,808,000 | 0.05% | – | | |
| | Interest of spouse | 1,000,000,000 | 17.69% | 680,000,000 | 1,682,808,000 | 29.77% |
| Beijing Enterprises Group (BVI) Company Limited *(Note 8)* | Interest of controlled corporation | 1,000,000,000 | 17.69% | – | 1,000,000,000 | 17.69% |
| Beijing Enterprises Group Company Limited *(Note 8)* | Interest of controlled corporation | 1,000,000,000 | 17.69% | – | 1,000,000,000 | 17.69% |
| Beijing Enterprises Holdings Limited *(Note 8)* | Interest of controlled corporation | 1,000,000,000 | 17.69% | – | 1,000,000,000 | 17.69% |
| Beijing Enterprises Treasury Company Limited *(Note 8)* | Security interest | 1,000,000,000 | 17.69% | – | 1,000,000,000 | 17.69% |

*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. These are the consideration shares and conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.

3. Financial International Holdings Limited is wholly-owned by Cheung Kwan. Therefore, under SFO, Cheung Kwan is deemed to be interested in 452,652,000 shares of the Company.

# Report of the Directors

4. Shares placed 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 shares of the Company.

5. Shares placed 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 395,624,000 shares of the Company. 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 395,624,000 shares of the Company.

6. These are the consideration shares and conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere Investment Limited ("Ever Sincere") pursuant to the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.

7. Ever Sincere Investment Ltd. ("Ever Sincere") is 50% owned by Long Dynasty Holdings Ltd. ("Long Dynasty"), which in turn is 100% owned by Mr. Xu Shengheng ("Mr. Xu"). Ms. Luk Hoi Man ("Ms. Luk") is the spouse of Mr. Xu. Therefore, under SFO, Long Dynasty, Mr. Xu and Ms. Luk are deemed to be interested in 1,000,000,000 shares and 680,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere. In addition, Ms. Luk held 2,808,000 shares of the Company. Therefore, under SFO, Mr. Xu is also deemed to be interested in 2,808,000 shares of the Company.

8. Beijing Enterprises Treasury Company Limited ("BETCL") held 1,000,000,000 shares of the Company as security interests in shares. BETCL is wholly-owned by Beijing Enterprises Holdings Limited ("BEHL"), which in turn is 36.11% owned by Beijing Enterprises Group (BVI) Company Limited ("BEG BVI"), which in turn is wholly-owned by Beijing Enterprises Group Company Limited ("BEGCL"). Therefore, under SFO, BETCL, BEHL, BEG BVI and BEGCL are deemed to be interested in 1,000,000,000 shares of the Company.

Save as disclosed above, as at 30 September 2008, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

## RELATED PARTY TRANSACTIONS

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

## COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests, with the Group.

# Report of the Directors

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the directors of the Company. After the resignation of Mr. Liu Yang as a member of the Audit Committee on 17 December 2008, the Audit Committee only comprises of Ms. Cai Xin and Mr. Zhang Lai, independent non-executive directors of the Company. Since then, the Company has failed to comply with the minimum number of three members for the Audit Committee as required under Rule 5.28 of the GEM Listing Rules.

The Audit Committee has reviewed the Group's audited annual results for the year ended 30 September 2008 and has provided advice and comments thereon. The Audit Committee held four meetings during the year.

## CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 20 to 22.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the year, the directors have complied with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

## AUDITORS

The consolidated financial statements of the Group for the year ended 30 September 2008 have been audited by Messrs. HLB Hodgson Impey Cheng who shall retire and, being eligible, offer themselves for re-appointment as the auditors of the Company at the forthcoming annual general meeting.

For the financial years ended 30 September 2007 and 30 September 2006, Messrs. HLB Hodgson Impey Cheng and Messrs. Grant Thornton acted as auditors of the Company respectively.

For and on behalf of the Board

**Wu Shu Min**
*Chairman*

Hong Kong, 19 December 2008

# Corporate Governance Report

## CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 30 September 2008. This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the period under review.

## BOARD OF DIRECTORS

As at 30 September 2008, the Board comprised of five Directors including two executive Directors, Mr. Wu Shu Min and Mr. Xu Zhi Feng, one non-executive Director, namely Mr. Lu Chuan and two independent non-executive Directors, namely Mr. Zhang Lai and Ms. Cai Xin. After the resignation of Mr. Liu Yang as independent non-executive Director on 17 December 2008, the Company has failed to comply with Rule 5.05(1) of the GEM Listing Rules which requires a listed issuer should have at least three independent non-executive directors. Mr. Wu Shu Min is the Chairman of the Board. One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise.

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

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

The Board held regular meetings during the year to discuss the overall business, development strategy, operations and financial reporting of the Company.

# Corporate Governance Report

During the year ended 30 September 2008, fifteen board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees were as follows:

| Name of Director | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting |
|---|---|---|---|
| *Executive Directors* | | | |
| Mr. Wu Shu Min | 15/15 | 4/4 | 4/4 |
| Mr. Fu Hui Zhong (resigned on 30 April 2008) | 12/15 | N/A | N/A |
| Mr. Xu Zhi Feng | 15/15 | N/A | N/A |
| *Non-executive Director* | | | |
| Mr. Lu Chuan (appointed on 1 September 2008) | 0/15 | N/A | N/A |
| *Independent non-executive Directors* | | | |
| Mr. Liu Yang (resigned on 17 December 2008) | 9/15 | 3/4 | 3/4 |
| Mr. Li Junlin (resigned on 15 February 2008) | 4/15 | 2/4 | 0/4 |
| Mr. Jin Dunshen (resigned on 9 April 2008) | 10/15 | 2/4 | 2/4 |
| Mr. Zhang Lai (appointed on 14 March 2008) | 6/15 | 2/4 | 3/4 |
| Ms. Cai Xin (appointed on 9 April 2008) | 4/15 | 2/4 | 2/4 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During certain periods in the year ended 30 September 2008, the responsibilities of chairman and the chief executive officer of the Company were performed by Mr. Wu Shu Min and Mr. Fu Hui Zhong respectively. However, after the resignation of Mr. Fu Hui Zhong as chief executive officer of the Company on 30 April 2008, there was no replacement of chief executive officer made by the Company. Therefore, both the roles of chairman and chief executive officer have been performed by Mr. Wu Shu Min since 1 May 2008. A significant change in the Group's structure following the acquisition of new businesses during the year, the Board will continue to carefully identify a suitable candidate to fill the vacancy of chief executive officer.

## NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, Mr. Lu Chuan, the non-executive Director, Mr. Zhang Lai and Ms. Cai Xin, the independent non-executive Directors have been appointed for a specific term of one year whereas Mr. Liu Yang, an independent non-executive Director, who has resigned on 17 December 2008, is not appointed for a specific term. However, all of them are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. The Company will comply with this Code Provision by making the new appointment to fill the vacancy of the non-executive Director.

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

# Corporate Governance Report

## REMUNERATION COMMITTEE

A remuneration committee was formed in May 2006 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee presently consists of two independent non-executive directors of the Company, namely Ms. Cai Xin and Mr. Zhang Lai.

During the year under review, four meetings were held by the remuneration committee to consider and approve the remuneration packages of most of the directors including those appointed during the year and the remuneration packages for senior staff.

## NOMINATION COMMITTEE

The Company has not established a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates.

## AUDITORS' REMUNERATION

For the year ended 30 September 2008, the remuneration in respect of audit services amounted to HK$1,000,000 and non-audit service assignment amounted to HK$1,950,000 provided by the auditors, HLB Hodgson Impey Cheng, during the year.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. After the resignation of Mr. Liu Yang as a member of Audit Committee on 17 December 2008, the audit committee only consists of two independent non-executive Directors of the Company, namely Ms. Cai Xin and Mr. Zhang Lai. Since then, the Company has failed to comply with the minimum number of three members for the Audit Committee as required under Rule 5.28 of the GEM Listing Rules.

The audit committee is of the opinion that the audited financial statements of the Company and the Group for the year ended 30 September 2008 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

## INTERNAL CONTROLS

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

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

# Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31st Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF**
**CHINA GROUND SOURCE ENERGY LIMITED**
**(FORMERLY KNOWN AS "IIN INTERNATIONAL LIMITED")**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 94, which comprise the consolidated and company balance sheets as at 30 September 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

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

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

# Independent Auditors' Report

## Opinion

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

**HLB Hodgson Impey Cheng**
Chartered Accountants
Certified Public Accountants

Hong Kong, 19 December 2008

# Consolidated Income Statement

*For the year ended 30 September 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Turnover** | 8 | **235,037** | 117,647 |
| Cost of sales | | **(156,482)** | (94,293) |
| **Gross profit** | | **78,555** | 23,354 |
| Other revenue and income | 10 | **26,229** | 10,537 |
| Selling and distribution costs | | **(10,477)** | (4,441) |
| Administrative expenses | | **(48,338)** | (14,308) |
| Other operating expenses | | **(10,467)** | (8,032) |
| **Profit from operations** | 11 | **35,502** | 7,110 |
| Share of results of a jointly controlled entity | | **(321)** | – |
| Share of results of associates | | **(83)** | – |
| Finance costs | 12 | **(24,733)** | (2,690) |
| **Profit before tax** | | **10,365** | 4,420 |
| Income tax credit/(expense) | 13 | **455** | (1,153) |
| **Profit for the year** | | **10,820** | 3,267 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **9,170** | 2,594 |
| Minority interests | | **1,650** | 673 |
| **Profit for the year** | | **10,820** | 3,267 |
| **Earnings per share attributable to equity holders of the Company during the year** | | | |
| Basic | 14 | **HK$0.20 cents** | HK$0.13 cents |
| Diluted | 14 | **HK$0.20 cents** | HK$0.13 cents |

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

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

# Consolidated Balance Sheet

*As at 30 September 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **70,833** | 17,373 |
| Prepaid land lease payments | 17 | **3,733** | 3,498 |
| Intangible assets | 18 | **5,074** | – |
| Interest in a jointly controlled entity | 20 | **9,774** | – |
| Interests in associates | 21 | **36,365** | – |
| Goodwill | 22 | **906,862** | 1,269 |
| Available-for-sale investments | 23 | **489** | – |
| | | **1,033,130** | 22,140 |
| **Current assets** | | | |
| Inventories | 24 | **92,174** | 4,776 |
| Held-for-trading financial assets | 25 | **14,502** | 38,500 |
| Trade and retention receivables | 26 | **101,369** | 36,910 |
| Amounts due from customers for contract works | 27 | **88,596** | – |
| Prepayments, deposits and other receivables | 28 | **100,895** | 33,940 |
| Amount due from a minority shareholder | 29 | **2,559** | – |
| Amount due from an associate | 29 | **609** | – |
| Pledged deposits | 30 | **–** | 790 |
| Cash and cash equivalents | 30 | **120,041** | 91,400 |
| | | **520,745** | 206,316 |
| **Current liabilities** | | | |
| Trade and bills payables | 31 | **66,116** | 13,039 |
| Amounts due to customers for contract works | 27 | **18,304** | – |
| Accrued liabilities, deposits received and other payables | 32 | **98,206** | 31,183 |
| Interest-bearing bank and other loans | 33 | **36,344** | 31,793 |
| Amount due to a minority shareholder | 34 | **21,968** | – |
| Amount due to an associate | 34 | **89,766** | – |
| Amounts due to directors | 35 | **–** | 334 |
| Tax payable | | **5,745** | 5,214 |
| | | **336,449** | 81,563 |
| **Net current assets** | | **184,296** | 124,753 |
| **Total assets less current liabilities** | | **1,217,426** | 146,893 |

# Consolidated Balance Sheet

*As at 30 September 2008*

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Convertible notes | 36 | **231,723** | – |
| Deferred tax liabilities | 37 | **21,826** | – |
| Deferred income | 38 | **9,989** | – |
| | | **263,538** | – |
| **Net assets** | | **953,888** | 146,893 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 39 | **440,935** | 230,667 |
| Reserves | 41 | **457,610** | (99,899) |
| | | **898,545** | 130,768 |
| Minority interests | | **55,343** | 16,125 |
| **Total equity** | | **953,888** | 146,893 |

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 December 2008 and signed on its behalf by:

**Wu Shu Min**
*Executive Director*

**Xu Zhi Feng**
*Executive Director*

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

# Balance Sheet

*As at 30 September 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 19 | **1,032,746** | 44,183 |
| Property, plant and equipment | 16 | **1,126** | – |
| | | **1,033,872** | 44,183 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | **1,014** | – |
| Cash and cash equivalents | 30 | **68,335** | 62,994 |
| | | **69,349** | 62,994 |
| **Current liabilities** | | | |
| Accrued liabilities and other payables | | **2,630** | 823 |
| Amounts due to subsidiaries | 19 | **32,768** | 28,239 |
| | | **35,398** | 29,062 |
| **Net current assets** | | **33,951** | 33,932 |
| **Total assets less current liabilities** | | **1,067,823** | 78,115 |
| **Non-current liabilities** | | | |
| Convertible notes | 36 | **231,723** | – |
| Deferred tax liabilities | 37 | **21,826** | – |
| | | **253,549** | – |
| **Net assets** | | **814,274** | 78,115 |
| **EQUITY** | | | |
| Share capital | 39 | **440,935** | 230,667 |
| Reserves | 41 | **373,339** | (152,552) |
| **Total equity** | | **814,274** | 78,115 |

The financial statements were approved and authorised for issue by the board of directors on 19 December 2008 and signed on its behalf by:

**Wu Shu Min**
*Executive Director*

**Xu Zhi Feng**
*Executive Director*

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

# Consolidated Statement of Changes in Equity

*For the year ended 30 September 2008*

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital | Share premium account | Statutory reserve | Convertible notes reserve | Asset revaluation reserve | Share-based payment reserve | Exchange fluctuation reserve | Accumulated losses | Sub-total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1 October 2006 | 126,989 | 54,964 | 4 | – | 766 | – | (17) | (204,631) | (21,925) | 10,195 | (11,730) |
| Surplus arising from revaluation of leasehold buildings | – | – | – | – | 852 | – | – | – | 852 | 819 | 1,671 |
| Share-based payment expenses | – | – | – | – | – | 779 | – | – | 779 | – | 779 |
| 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 |
| Placing of new shares | 103,678 | 47,535 | – | – | – | – | – | – | 151,213 | – | 151,213 |
| Cost of placing of shares | – | (1,678) | – | – | – | – | – | – | (1,678) | – | (1,678) |
| Acquisition of additional shares of a subsidiary | – | – | – | – | – | – | – | – | – | 129 | 129 |
| Capital increase in a subsidiary | – | – | – | – | – | – | – | – | – | 4,309 | 4,309 |
| As at 30 September 2007 and 1 October 2007 | 230,667 | 100,821 | 4 | – | 1,618 | 779 | (1,084) | (202,037) | 130,768 | 16,125 | 146,893 |
| Deficits arising from revaluation of leasehold buildings | – | – | – | – | (297) | – | – | – | (297) | (285) | (582) |
| Currency translation | – | – | – | – | – | – | 8,072 | – | 8,072 | 1,103 | 9,175 |
| Net income and expenses recognised directly in equity | – | – | – | – | (297) | – | 8,072 | – | 7,775 | 818 | 8,593 |
| Net profit for the year | – | – | – | – | – | – | – | 9,170 | 9,170 | 1,650 | 10,820 |

# Consolidated Statement of Changes in Equity

*For the year ended 30 September 2008*

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital | Share premium account | Statutory reserve | Convertible notes reserve | Asset revaluation reserve | Share-based payment reserve | Exchange fluctuation reserve | Accumulated losses | Sub-total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total recognised income and expenses for the year | – | – | – | – | (297) | – | 8,072 | 9,170 | 16,945 | 2,468 | 19,413 |
| Issuance of shares for acquisition of subsidiaries | 117,000 | 233,000 | – | – | – | – | – | – | 350,000 | – | 350,000 |
| Exercise of share options | 390 | 360 | – | – | – | – | – | – | 750 | – | 750 |
| Placing of new shares | 92,878 | 184,490 | – | – | – | – | – | – | 277,368 | – | 277,368 |
| Cost of placing new shares | – | (2,041) | – | – | – | – | – | – | (2,041) | – | (2,041) |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | 33,341 | 33,341 |
| Release of translation reserve on disposal/ winding up of subsidiaries | – | – | – | – | – | – | 1,075 | – | 1,075 | – | 1,075 |
| Incorporation of subsidiaries | – | – | – | – | – | – | – | – | – | 3,409 | 3,409 |
| Issuance of convertible notes | – | – | – | 148,120 | – | – | – | – | 148,120 | – | 148,120 |
| Deferred tax | – | – | – | (24,440) | – | – | – | – | (24,440) | – | (24,440) |
| As at 30 September 2008 | 440,935 | 516,630 | 4 | 123,680 | 1,321 | 779 | 8,063 | (192,867) | 898,545 | 55,343 | 953,888 |

# Consolidated Cash Flow Statement

*For the year ended 30 September 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **10,365** | 4,420 |
| Adjustments for: | | | |
| Interest income | | **(2,259)** | (905) |
| Share-based payment expenses | | **–** | 779 |
| Dividend income | | **(892)** | – |
| Share of results of a jointly controlled entity | | **321** | – |
| Share of results of associates | | **83** | – |
| Gain on disposal of a subsidiary | | **(946)** | – |
| Gain on winding up of subsidiaries | | **(1,027)** | – |
| Depreciation of property, plant and equipment | | **5,491** | 2,185 |
| Amortisation of intangible assets | | **597** | – |
| Amortisation of prepaid land lease payments | | **85** | 78 |
| Write-off of club membership | | **–** | 379 |
| Write-off of property, plant and equipment | | **102** | 496 |
| Impairment on goodwill | | **1,269** | – |
| Allowance of obsolete inventories | | **–** | 431 |
| Finance costs | | **24,733** | 2,690 |
| Amortisation of deferred income on government grants | | **(383)** | – |
| Fair value changes on held-for-trading financial assets | | **(34,263)** | (11,278) |
| Provision of allowance for doubtful debts | | **7,183** | 2,409 |
| Reversal of allowance for doubtful debts | | **(1,307)** | (1,509) |
| Operating cash flow before working capital changes | | **9,152** | 175 |
| (Increase)/decrease in inventories | | **(13,973)** | 802 |
| Increase in trade and retention receivables | | **(4,993)** | (5,707) |
| Increase in amounts due from customers for contract work | | **(17,801)** | – |
| Decrease/(increase) in prepayments, deposits and other receivables | | **11,375** | (31,221) |
| Decrease in amount due from a minority shareholder | | **3,998** | – |
| Increase in amount due from an associate | | **(594)** | – |
| Proceeds from disposal of held-for-trading financial assets | | **87,288** | – |
| Purchase of held-for-trading financial assets | | **(3,310)** | (27,222) |
| Decrease in amounts due to directors | | **(334)** | (1,060) |
| Increase/(decrease) in trade and bills payables | | **3,306** | (4,890) |
| Increase in accrued liabilities, deposits received and other payables | | **8,152** | 10,415 |
| Increase in deferred income | | **5,928** | – |
| Increase in amount due to a minority shareholder | | **17,989** | – |
| Increase in amount due to an associate | | **89,680** | – |
| Cash generated from/(used in) operations | | **195,863** | (58,708) |
| Interest paid | | **(8,890)** | (2,690) |
| Dividend received | | **892** | – |
| Income tax paid in the PRC | | **(1,523)** | (392) |
| **Net cash generated from/(used in) operating activities** | | **186,342** | (61,790) |

# Consolidated Cash Flow Statement

*For the year ended 30 September 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **2,259** | 905 |
| Purchase of property, plant and equipment | | **(22,374)** | (4,870) |
| Capital injection from minority shareholders | | **3,409** | – |
| Investments in associates | | **(34,110)** | – |
| Proceeds from acquisition of subsidiaries | | **(242,666)** | (1,140) |
| Proceeds from disposal of a subsidiary | | **(117)** | – |
| Decrease/(increase) in pledged deposits | | **790** | (731) |
| **Net cash used in investing activities** | | **(292,809)** | (5,836) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Drawdown of bank loans | | **44,991** | 19,656 |
| Drawdown of other loans | | **17,242** | 12,158 |
| Repayment of bank loans | | **(195,373)** | (15,784) |
| Repayment of other loans | | **(13,269)** | (11,737) |
| Proceeds from placing of new shares | | **275,327** | 149,535 |
| Proceeds from exercise of share options | | **750** | – |
| **Net cash generated from financing activities** | | **129,668** | 153,828 |
| **Net increase in cash and cash equivalents** | | **23,201** | 86,202 |
| **Cash and cash equivalents at the beginning of the year** | | **91,400** | 3,458 |
| **Effect of foreign exchange rate changes** | | **5,440** | 1,740 |
| **Cash and cash equivalents at the end of the year** | | **120,041** | 91,400 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | *30* | **120,041** | 91,400 |

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The address of its registered office is Huntlaw Building, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is Room 1303, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong. The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

## 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 and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations, which are effective for the Group's financial year beginning on 1 October 2007. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) - Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC) - Int 11 | HKFRS 2 - Group and Treasury Share Transactions |

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

In addition, the Group has applied, for the first time, amendments to Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" and Hong Kong Financial Reporting Standard 7 "Financial Instruments: Disclosures", which were issued on 15 October 2008, and effective from 1 July 2008.

The adoption of these new HKFRSs has no significant impact on the Group's results and financial position for the current or prior accounting periods.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendment) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 (Amendment) | Share-based Payment - Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) - Int 12 | Service Concession Arrangements[3] |
| HK(IFRIC) - Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) - Int 14 | HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |
| HK(IFRIC) - Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC) - Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HKFRSs (Amendment) | Improvements to HKFRSs[6] |

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, which is effective for annual periods beginning on or after 1 July 2009

The directors of the Company has commenced their assessments of the impact of the above new and revised HKFRSs, but it is not yet in a position to state whether these new and revised HKFRSs, would have a material impact on the results and the financial position of the Group.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

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

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (a) Basis of preparation *(Continued)*

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

### (b) Basis of consolidation

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

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

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

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

### (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) Interest in a jointly controlled entity

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

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

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

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

### (e) Interests in associates

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

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

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

### (f) Goodwill

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (g) 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 conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

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

### (h) Foreign currencies

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (h) Foreign currencies *(Continued)*

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

### (i) Revenue recognition

Revenue is recognised when it is probable that 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.

### (j) 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.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (j) Intangible assets (other than goodwill) and research and development costs *(Continued)*

**Research and development costs**

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

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

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

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

(iv) the intangible asset can be reliably measured.

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

### (k) Property, plant and equipment

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

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (k) Property, plant and equipment *(Continued)*

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 the net carrying amount of buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the asset and the remaining decrease is recognised in the income statement.

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

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

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

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

### (l) 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.

### (m) Leases

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

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

### (n) 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.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (n) Financial instruments *(Continued)*

**Financial assets**

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

*Effective interest method*

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

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

*Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (n) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

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

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

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

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

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

*Loans and receivables*

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

*Available-for-sale financial assets*

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

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (n) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets*

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

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

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

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (n) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

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

**Financial liabilities and equity**

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

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

*Effective interest method*

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

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

*Financial liabilities*

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

*Equity instruments*

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

*Convertible notes*

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

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

### (n) Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Convertible notes (Continued)*

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

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

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

**Derecognition**

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

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

### (o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a 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.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (p) Construction contract

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

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

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

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

### (q) Income taxes

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

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

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

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

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

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

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

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

### (r) Cash and cash equivalents

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

### (s) 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Company's subsidiaries in the People's Republic of China except Hong Kong (the "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.

### (t) Share-based employee compensation

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

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

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

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

### (u) Provisions and contingencies

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (u) Provisions and contingencies *(Continued)*

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.

### (v) Government grants

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

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

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

### (w) 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;

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

### (w) Related parties *(Continued)*

(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 significantly 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. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash) | **387,669** | 137,090 |
| Financial assets at fair value through profit or loss – Held-for-trading financial assets | **14,502** | 38,500 |
| Available-for-sale investments | **489** | – |
| **Financial liabilities** | | |
| Amortised cost | **550,929** | 75,686 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

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

**(i) Market risk**

*(1) Foreign exchange risk*

The Group operates mainly in both the People's Republic of China, excludes Hong Kong and Macau Special Administrative Region (the "PRC") and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Renminbi | **303,271** | 65,489 | **283,973** | 77,774 |

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in Renminbi. As at 30 September 2008, if there is a 5% increase or decrease in the Hong Kong dollars against the Renminbi with all other variables held constant, the Group's translation reserve would be increased or decreased by approximately HK$965,000 (2007: HK$614,000).

*(2) Other price risk*

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**(i) Market risk** *(Continued)*

*(2) Other price risk (Continued)*

Sensitivity analysis

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

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

(i) profit before taxation for the year ended 30 September 2008 would increase/decrease by approximately HK$725,000 (2007: increase/decrease by HK$1,925,000) as a result of the changes in fair value of held-for-trading financial assets.

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

*(3) Cash flow and fair value interest rate risk*

The Group's exposure to changes in interest rates is mainly attributable to its short-term borrowings. Short-term borrowings at variable rates expose the Group to fair value interest rate risk (see note 33 for details of these borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As at 30 September 2008 and 2007, a reasonably possible change of 50 basis-points interest rates on borrowings would have no material impact on the Group's results for the year and equity as at the year end.

**(ii) Credit risk**

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

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**(iii) Liquidity risk management**

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

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

| | Weighted average effective interest rate | Less than 1 year | Between 2 and 5 years | Over 5 years | Total contractual undiscounted cash flow | Total carrying amount |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 September 2008** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade and bills payables | – | 66,116 | – | – | 66,116 | 66,116 |
| Amounts due to customers for contract works | – | 18,304 | – | – | 18,304 | 18,304 |
| Accrued liabilities and other payables | – | 86,708 | – | – | 86,708 | 86,708 |
| Interest-bearing bank and other loans | 9% | 37,571 | – | – | 37,571 | 36,344 |
| Amount due to a minority shareholder | – | 21,968 | – | – | 21,968 | 21,968 |
| Amount due to an associate | – | 89,766 | – | – | 89,766 | 89,766 |
| Convertible notes | 11% | – | 364,000 | – | 364,000 | 231,723 |
| | | 320,433 | 364,000 | – | 684,433 | 550,929 |
| As at 30 September 2007 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Trade and bills payables | – | 13,039 | – | – | 13,039 | 13,039 |
| Interest-bearing bank and other loans | 8% | 32,176 | – | – | 32,176 | 31,793 |
| Amounts due to directors | – | 334 | – | – | 334 | 334 |
| Accrued liabilities and other payables | – | 30,520 | – | – | 30,520 | 30,520 |
| | | 76,069 | – | – | 76,069 | 75,686 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 5. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value estimation

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

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

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

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

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Convertible notes *(note)* | **231,723** | **230,500** | – | – |

*Note:*

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

## 6. CAPITAL RISK MANAGEMENT

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

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

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

## 6. CAPITAL RISK MANAGEMENT *(Continued)*

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

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Total borrowings *(note i)* | **268,067** | 31,793 |
| Equity *(note ii)* | **898,545** | 130,768 |
| Gearing ratio | **30%** | 24% |

i) Debt comprises the interest-bearing bank and other loans and convertible notes as detailed in notes 33 and 36 respectively.

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

## 7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

### (a) Depreciation of property, plant and equipment

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

### (b) Impairment of trade and other receivables

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

### (c) Allowance for obsolete of inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate aging analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of 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.

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

### (d) Leasehold buildings

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

### (e) Impairment of goodwill

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

## 8. TURNOVER

Turnover represents the net amounts received and receivables from goods sold to customers, after allowances for returns and trade discounts where applicable and services rendered. All significant intra-group transactions have been eliminated on consolidation.

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of communication cables and optical cables | **95,853** | 106,369 |
| Sales and installation of shallow ground energy utilisation system | **73,405** | – |
| Maintenance services for shallow ground energy utilisation system | **2,690** | – |
| Fair value changes on held-for-trading financial assets | **34,263** | 11,278 |
| Sewage and marsh gas treatment income | **28,826** | – |
| | **235,037** | 117,647 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 9. SEGMENT INFORMATION

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

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

The Group comprises the following business segments:

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

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

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

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

(e) Corporate and others segment – provision and sales of telecommunications network infrastructure solutions and network managements solutions.

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 9. SEGMENT INFORMATION *(Continued)*

### (a) Business segments

The following tables present revenue, results, certain assets, liabilities and other information for the Group's business segments.

#### Consolidated income statement

| | Transmission | | Shallow ground energy | | Environmental protection | | Securities investments and trading | | Corporate and others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover: | | | | | | | | | | | | |
| Sales to external customers | **95,853** | 106,369 | **76,095** | – | **28,826** | – | **34,263** | 11,278 | **–** | – | **235,037** | 117,647 |
| Segment results | **10** | 726 | **5,825** | – | **6,250** | – | **33,735** | 7,887 | **(3,194)** | (11,261) | **42,626** | (2,648) |
| Unallocated other revenue and income | | | | | | | | | | | **3,799** | 10,537 |
| Unallocated expenses | | | | | | | | | | | **(10,923)** | (779) |
| Profit from operating activities | | | | | | | | | | | **35,502** | 7,110 |
| Share of results of a jointly controlled entity | **–** | – | **(321)** | – | **–** | – | **–** | – | **–** | – | **(321)** | – |
| Share of results of associates | **–** | – | **(83)** | – | **–** | – | **–** | – | **–** | – | **(83)** | – |
| Finance costs | | | | | | | | | | | **(24,733)** | (2,690) |
| Profit before tax | | | | | | | | | | | **10,365** | 4,420 |
| Income tax credit/(expense) | | | | | | | | | | | **455** | (1,153) |
| Profit for the year | | | | | | | | | | | **10,820** | 3,267 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 9. SEGMENT INFORMATION *(Continued)*

### (a) Business segments *(Continued)*

**Consolidated balance sheet**

| | Transmission | | Shallow ground energy | | Environmental protection | | Securities investments and trading | | Corporate and others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***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 | **70,035** | 77,907 | **411,355** | – | **56,823** | – | **14,502** | 38,985 | **6,770** | 11,631 | **559,485** | 128,523 |
| Unallocated assets | | | | | | | | | | | **994,390** | 99,933 |
| Total assets | | | | | | | | | | | **1,553,875** | 228,456 |
| Segment liabilities | **56,916** | 12,191 | **261,963** | – | **32,941** | – | **–** | 3,390 | **7,341** | 21,209 | **359,161** | 36,790 |
| Unallocated liabilities | | | | | | | | | | | **240,826** | 44,773 |
| Total liabilities | | | | | | | | | | | **599,987** | 81,563 |

**Other segment information**

| | Transmission | | Shallow ground energy | | Environmental protection | | Securities investments and trading | | Corporate and others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | **1,918** | 1,676 | **1,049** | – | **1,687** | – | **–** | – | **837** | 509 | **5,491** | 2,185 |
| Write-off of property, plant and equipment | **102** | – | **–** | – | **–** | – | **–** | – | **–** | 496 | **102** | 496 |
| Amortisation of prepaid land lease payments | **85** | 78 | **–** | – | **–** | – | **–** | – | **–** | – | **85** | 78 |
| Provision of allowance for doubtful debts | **–** | 2,095 | **7,183** | – | **–** | – | **–** | – | **–** | 314 | **7,183** | 2,409 |
| Reversal of allowance for doubtful debts | **(1,307)** | (1,375) | **–** | – | **–** | – | **–** | – | **–** | (134) | **(1,307)** | (1,509) |
| Reversal of bad debts written off | **–** | – | **(14,804)** | – | **–** | – | **–** | – | **–** | – | **(14,804)** | – |
| Allowance for obsolete inventories | **–** | 431 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 431 |
| Write-off of club membership | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 379 | **–** | 379 |
| Share-based payment expenses | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 779 | **–** | 779 |
| (Deficits)/surplus arising from revaluation of leasehold buildings - recognised directly in equity | **(582)** | 1,671 | **–** | – | **–** | – | **–** | – | **–** | – | **(582)** | 1,671 |
| Capital expenditure | **2,262** | 2,296 | **9,070** | – | **6,279** | – | **–** | – | **4,763** | 2,574 | **22,374** | 4,870 |
| Impairment of goodwill | **–** | – | **–** | – | **–** | – | **–** | – | **1,269** | – | **1,269** | – |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 9. SEGMENT INFORMATION *(Continued)*

### (b) Geographical segments

Over 90% of the Group's revenue, assets and liabilities are derived from customers based in the PRC for the years ended 30 September 2008 and 2007 and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

## 10. OTHER REVENUE AND INCOME

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Other revenue:** | | |
| Bank interest income | **2,259** | 905 |
| Forfeiture of customer deposits | **3,349** | – |
| Government grants | **934** | 3,071 |
| Dividend income | **892** | – |
| Others | **711** | – |
| | **8,145** | 3,976 |
| **Other income:** | | |
| Reversal of allowance for doubtful debts | **1,307** | 1,509 |
| Reversal of bad debts written off | **14,804** | – |
| Gain on winding up of subsidiaries | **1,027** | – |
| Gain on disposal of a subsidiary | **946** | – |
| Provision for penalty written back | **–** | 5,052 |
| | **18,084** | 6,561 |
| | **26,229** | 10,537 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 11. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold and services provided | **156,482** | 94,293 |
| Depreciation of property, plant and equipment | **5,491** | 2,185 |
| Amortisation of prepaid land lease payments | **85** | 78 |
| Amortisation of intangible assets | **597** | – |
| Minimum lease payments under operating leases in respect of land and buildings | **5,068** | 141 |
| Auditors' remuneration | **1,000** | 350 |
| Staff costs (including directors' emoluments) *(note 15)*: | | |
| – Wages and salaries | **20,879** | 6,021 |
| – Pension scheme contributions | **104** | 12 |
| Provision of allowance for doubtful debts *(note)* | **7,183** | 2,409 |
| Impairment of goodwill | **1,269** | – |
| Allowance for obsolete inventories *(note)* | **–** | 431 |
| Write-off of property, plant and equipment *(note)* | **102** | 496 |
| Write-off of club membership *(note)* | **–** | 379 |
| Share-based payment expenses *(note)* | **–** | 779 |

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

## 12. FINANCE COSTS

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interests on bank loans wholly repayable within five years | **6,396** | 1,596 |
| Interests on other loans wholly repayable within five years | **2,494** | 1,094 |
| Imputed interests on convertible notes | **15,843** | – |
| | **24,733** | 2,690 |

## 13. INCOME TAX CREDIT/(EXPENSE)

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2007: 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.

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Charge for the year- the PRC | **(2,159)** | (1,153) |
| Deferred tax *(note 37)* | **2,614** | – |
| | **455** | (1,153) |

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries of the Group from 1 January 2008. The standard Hong Kong Profits Tax rate is 16.5% for the year ended 30 September 2008 (2007: 17.5%).

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

**For the year ended 30 September 2008**

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

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

For the 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 |
| Tax charge for the year | – | – | 1,153 | 21.0 | 1,153 | 26.1 |

## 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of HK$9,170,000 (2007: HK$2,594,000) and the weighted average number of ordinary shares of 4,682,687,000 (2007: 1,922,212,000) in issue during the year.

Diluted earnings per share for the years ended 30 September 2008 and 2007 are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

| | Earnings | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company for the purposes of basic and diluted earnings per share | **9,170** | 2,594 |

| | Number of ordinary shares | |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **4,682,687** | 1,922,212 |
| Effect of dilutive potential ordinary shares: | | |
| – share options | **3,789** | 3,335 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **4,686,476** | 1,925,547 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 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:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Fees:** | | |
| Independent non-executive directors | **330** | 312 |
| Executive directors | **–** | – |
| Non-executive directors | **20** | – |
| | **350** | 312 |
| **Other emoluments of executive directors:** | | |
| Salaries, allowances and benefits in kind | **2,272** | 2,466 |
| | **2,622** | 2,778 |

The emoluments of each director, on a named basis for the years ended 30 September 2008 and 2007 are set out below:

| | For the year ended 30 September 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Directors' 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 *(note viii)* | 96 | – | – | – | – | 96 |
| Li Jun Lin *(note i)* | 86 | – | – | – | – | 86 |
| Jin Dun Shen *(note ii)* | 50 | – | – | – | – | 50 |
| Zhanglai *(note iii)* | 52 | – | – | – | – | 52 |
| Cai Xin *(note iv)* | 46 | – | – | – | – | 46 |
| | 330 | – | – | – | – | 330 |
| **Non-executive director:** | | | | | | |
| Lu Chuan *(note v)* | 20 | – | – | – | – | 20 |
| **Executive directors:** | | | | | | |
| Wu Shu Min | – | 1,492 | – | – | – | 1,492 |
| Xu Zhi Feng | – | 500 | – | – | – | 500 |
| Fu Hui Zhong *(note vi)* | – | 280 | – | – | – | 280 |
| | – | 2,272 | – | – | – | 2,272 |
| **Total - 2008** | 350 | 2,272 | – | – | – | 2,622 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

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

For the year ended 30 September 2007

| | Directors' 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 *(note viii)* | 120 | – | – | – | – | 120 |
| Li Jun Lin *(note i)* | 96 | – | – | – | – | 96 |
| Jin Dun Shen *(note ii)* | 96 | – | – | – | – | 96 |
| | 312 | – | – | – | – | 312 |
| **Non-executive director:** | | | | | | |
| Yukihiko Izutsu *(note vii)* | – | – | – | – | – | – |
| **Executive directors:** | | | | | | |
| Wu Shu Min | – | 1,873 | – | – | – | 1,873 |
| Xu Zhi Feng | – | 492 | – | – | – | 492 |
| Fu Hui Zhong *(note vi)* | – | 101 | – | – | – | 101 |
| | – | 2,466 | – | – | – | 2,466 |
| Total - 2007 | 312 | 2,466 | – | – | – | 2,778 |

*Notes:*

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

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

(iii) Zhanglai was appointed on 14 March 2008.

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

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

(vi) Fu Hui Zhong was appointed on 16 July 2007 and resigned on 30 April 2008.

(vii) Yukihiko Izutsu was resigned on 7 July 2007.

(Viii) Liu Yang was resigned on 17 December 2008.

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 30 September 2008 and 2007.

### Five highest paid individuals

The five highest paid individuals in the Group during the year included three (2007: two) directors, details of whose emoluments are disclosed above. The emoluments paid to the remaining two (2007: three) non-director, highest paid individuals for the year are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **3,487** | 878 |
| Pension scheme contributions | **104** | 12 |
| Share-based payment expenses | **–** | 779 |
| | **3,591** | 1,669 |

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Nil - HK$1,000,000 | **2** | 3 |

During the years ended 30 September 2008 and 2007, 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.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 16. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Leasehold buildings | Construction in progress | Leasehold improvements | Plant and machinery | Computer equipment | Office equipment, furniture and fixtures | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost or valuation:** | | | | | | | | |
| As at 1 October 2006 | 4,670 | 317 | 235 | 10,677 | 7,208 | 2,013 | 1,978 | 27,098 |
| Additions | – | 1,943 | – | 258 | 54 | 41 | 2,574 | 4,870 |
| Write-off | – | – | – | – | (339) | (143) | (14) | (496) |
| Revaluation | 1,671 | – | – | – | – | – | – | 1,671 |
| Elimination on revaluation | (171) | – | – | – | – | – | – | (171) |
| Exchange alignment | 240 | 19 | 14 | 649 | 438 | 122 | 120 | 1,602 |
| As at 30 September 2007 and 1 October 2007 | 6,410 | 2,279 | 249 | 11,584 | 7,361 | 2,033 | 4,658 | 34,574 |
| Acquisition of subsidiaries | – | 13,738 | 225 | 14,688 | 53 | 2,474 | 2,992 | 34,170 |
| Additions | 1,299 | 815 | 1,710 | 8,474 | 1,007 | 5,673 | 3,396 | 22,374 |
| Transfer from construction in progress | 2,492 | (2,492) | – | – | – | – | – | – |
| Write-off | – | – | – | – | (538) | (161) | (500) | (1,199) |
| Elimination on revaluation | (455) | – | – | – | – | – | – | (455) |
| Revaluation | (582) | – | – | – | – | – | – | (582) |
| Exchange alignment | 386 | 1,311 | 21 | 1,507 | 38 | 127 | 416 | 3,806 |
| As at 30 September 2008 | 9,550 | 15,651 | 2,205 | 36,253 | 7,921 | 10,146 | 10,962 | 92,688 |
| **Accumulated depreciation:** | | | | | | | | |
| As at 1 October 2006 | – | – | 235 | 4,044 | 6,494 | 1,870 | 1,674 | 14,317 |
| Charge for the year | 171 | – | – | 1,402 | 346 | 48 | 218 | 2,185 |
| Elimination on revaluation | (171) | – | – | – | – | – | – | (171) |
| Exchange alignment | – | – | 14 | 246 | 395 | 113 | 102 | 870 |
| As at 30 September 2007 and 1 October 2007 | – | – | 249 | 5,692 | 7,235 | 2,031 | 1,994 | 17,201 |
| Charge for the year | 455 | – | 364 | 2,752 | 49 | 646 | 1,225 | 5,491 |
| Write-off | – | – | – | – | (519) | (159) | (419) | (1,097) |
| Elimination on revaluation | (455) | – | – | – | – | – | – | (455) |
| Exchange alignment | – | – | 1 | 560 | 24 | 59 | 71 | 715 |
| As at 30 September 2008 | – | – | 614 | 9,004 | 6,789 | 2,577 | 2,871 | 21,855 |
| **Net book value:** | | | | | | | | |
| **As at 30 September 2008** | **9,550** | **15,651** | **1,591** | **27,249** | **1,132** | **7,569** | **8,091** | **70,833** |
| As at 30 September 2007 | 6,410 | 2,279 | – | 5,892 | 126 | 2 | 2,664 | 17,373 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### The Company

| | Leasehold Improvements | Computer equipment | Office equipment, furniture and fixtures | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | – | – | – | – |
| Additions | 1,045 | 133 | 130 | 1,308 |
| As at 30 September 2008 | 1,045 | 133 | 130 | 1,308 |
| **Accumulated depreciation:** | | | | |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | – | – | – | – |
| Charge for the year | 149 | 14 | 19 | 182 |
| As at 30 September 2008 | 149 | 14 | 19 | 182 |
| **Net book value:** | | | | |
| **As at 30 September 2008** | **896** | **119** | **111** | **1,126** |
| As at 30 September 2007 | – | – | – | – |

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

As at the 30 September 2008, the Group's leasehold buildings were revalued individually by Norton Appraisals Limited, independent professional qualified valuers, at an aggregate of HK$9,550,000 (2007: HK$6,410,000). The revaluation deficits of HK$582,000 (2007: surplus of HK$1,671,000), resulting from the above valuations, has been recognised in equity.

As at 30 September 2008, the Group's leasehold buildings and plant and machinery with carrying values of approximately HK$9,550,000 (2007: HK$6,410,000) and HK$4,958,000 (2007: HK$5,892,000) respectively, were pledged to secure general banking facilities granted to the Group (note 33).

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

| | Leasehold buildings HK$'000 | Construction in progress HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Computer equipment HK$'000 | Office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At cost | – | 2,279 | 249 | 11,584 | 7,361 | 2,033 | 4,658 | 28,164 |
| At valuation | 6,410 | – | – | – | – | – | – | 6,410 |
| Net book value | 6,410 | 2,279 | 249 | 11,584 | 7,361 | 2,033 | 4,658 | 34,574 |

## 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.

| | **2008** *HK$'000* | 2007 *HK$'000* |
|---|---|---|
| Outside Hong Kong held on: | | |
| - Leases of between 10 to 50 years | **3,733** | 3,498 |

The above prepaid land lease payments were pledged to secure bank loans (note 33).

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 17. PREPAID LAND LEASE PAYMENTS *(Continued)*

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Cost:** | | |
| At the beginning of the year | **3,879** | 3,657 |
| Exchange alignment | **362** | 222 |
| At the end of the year | **4,241** | 3,879 |
| **Accumulated amortisation:** | | |
| At the beginning of the year | **381** | 286 |
| Charge for the year | **85** | 78 |
| Exchange alignment | **42** | 17 |
| At the end of the year | **508** | 381 |
| **Net book value:** | | |
| As at 30 September | **3,733** | 3,498 |

## 18. INTANGIBLE ASSETS

| | **Technical know-how** | **Deferred development costs** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | – | 6,285 | 6,285 |
| Acquired on acquisition of subsidiaries | 5,542 | – | 5,542 |
| Exchange alignment | 132 | – | 132 |
| As at 30 September 2008 | 5,674 | 6,285 | 11,959 |
| **Amortisation and impairment:** | | | |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | – | 6,285 | 6,285 |
| Charge for the year | 597 | – | 597 |
| Exchange alignment | 3 | – | 3 |
| As at 30 September 2008 | 600 | 6,285 | 6,885 |
| **Net book value:** | | | |
| **As at 30 September 2008** | **5,074** | **–** | **5,074** |
| As at 30 September 2007 | – | – | – |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 18. INTANGIBLE ASSETS *(Continued)*

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

The Group acquired the technical know-how through the acquisition of Beijing Enterprises Ever Source Limited and its subsidiaries (details as per note 43). The technical know-how is amortised on straight-line method over 10 years.

## 19. INTERESTS IN SUBSIDIARIES

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **43,437** | 43,437 |
| Amounts due from subsidiaries | **1,220,197** | 234,197 |
| Amounts due to subsidiaries | **(32,768)** | (28,239) |
| | **1,230,866** | 249,395 |
| Impairment losses recognised | **(230,888)** | (233,451) |
| | **999,978** | 15,944 |
| Amounts due to subsidiaries classified as current liabilities | **32,768** | 28,239 |
| | **1,032,746** | 44,183 |

As at 30 September 2008 and 2007, the carrying amounts of the Company's balances with subsidiaries were unsecured, interest-free and recoverable/repayable on demand.

Particulars of the Company's principal subsidiaries as at 30 September 2008 are set out in note 42.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 20. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted investment, at cost | **9,869** | – |
| Share of post acquisition result | **(321)** | – |
| Exchange alignment | **226** | – |
| | **9,774** | – |

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

| **Name** | **Place of incorporation/ registration and operations** | **Particulars of registered capital** | **Percentage of equity attributable to the Group** | **Principal activities** |
|---|---|---|---|---|
| Xilinhot City Ever Source New Energy and Thermal Limited ("Xilinhot City ES") | the PRC | RMB 20,000,000 | 52.8% | Sales, installation and maintenance of geothermal energy systems |

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **18,592** | – |
| Total liabilities | **(91)** | – |
| Net assets | **18,501** | – |
| The Group's share of net assets of the jointly controlled entity | **9,774** | – |
| Turnover | **2** | – |
| Loss for the year | **(607)** | – |
| Loss attributable to the Group | **(321)** | – |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 21. INTERESTS IN ASSOCIATES

| | The Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Unlisted investment, at cost | **36,393** | – |
| Share of post acquisition result | **(83)** | – |
| Exchange alignment | **55** | – |
| | **36,365** | – |

Particulars of the Group's associates as at 30 September 2008 are as follows:

| Name | Place of incorporation/ registration and operations | Particulars of registered capital | Percentage of equity attributable to the Group | Principal activities |
|---|---|---|---|---|
| Beijing King Feng Ever Source Thermal Energy Scientific and Technology Development Limited | the PRC | RMB 6,000,000 | 46.67% | Development of heat technology |
| Ever Source Investment Management Company Limited | the PRC | RMB 79,000,000 | 37.97% | Investment holding |

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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Total assets | **140,140** | – |
| Total liabilities | **(45,491)** | – |
| Net assets | **94,649** | – |
| The Group's share of net assets of the associates | **36,365** | – |
| Turnover | **–** | – |
| Loss for the year | **(175)** | – |
| Loss attributable to the Group | **(83)** | – |

## 22. GOODWILL

| | HK$'000 |
|---|---|
| **Cost:** | |
| As at 1 October 2006 | 36,468 |
| Additions arising from acquisition of subsidiaries | 1,269 |
| As at 30 September 2007 and 1 October 2007 | 37,737 |
| Additions arising from acquisition of subsidiaries | 906,862 |
| As at 30 September 2008 | 944,599 |
| **Impairment:** | |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | 36,468 |
| Impairment loss recognised | 1,269 |
| As at 30 September 2008 | 37,737 |
| **As at 30 September 2008** | **906,862** |
| As at 30 September 2007 | 1,269 |

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

An impairment of goodwill of HK$1,269,000 was recognised for the network solution business since the directors of the Company consider that the recoverability of such goodwill is not feasible. The main factor contributing to the impairment of the goodwill attributable to the network solution business is that the actual cash flow generated was lower than expected.

## 22. GOODWILL *(Continued)*

### Impairment test for goodwill

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Environmental protection business | **378,087** | – |
| Shallow ground energy business | **528,775** | – |
| Network solution business | **–** | 1,269 |
| | **906,862** | 1,269 |

As at 30 September 2008, the recoverable amounts of the goodwill allocated to environmental protection business and shallow ground energy business were assessed by reference to the value-in-use model based on a five-year cash flow projection approved by the directors of the Company. A discount rate of approximately 12% per annum was applied in the value-in-use model when assessing the recoverability of the goodwill.

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

## 23. AVAILABLE-FOR-SALE INVESTMENTS

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **489** | – |

At the balance sheet dates, all available-for-sale investments were stated at cost.

The unlisted share of which 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 the Company are of the opinion that their fair values cannot be measured reliably.

## 24. INVENTORIES

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **47,362** | 345 |
| Work-in-progress | **22,837** | – |
| Finished goods | **21,975** | 4,431 |
| | **92,174** | 4,776 |

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

## 25. HELD-FOR-TRADING FINANCIAL ASSETS

Held-for-trading financial assets comprise:

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **Listed investments:** | | |
| - Equity securities listed in Hong Kong | **14,502** | 38,500 |

The fair values of held-for-trading financial assets have been determined based on the quoted market bid prices available on the relevant stock exchanges.

## 26. TRADE AND RETENTION RECEIVABLES

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

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| 0 - 90 days | **33,943** | 26,265 |
| 91 - 180 days | **28,358** | 10,117 |
| 181 - 365 days | **22,678** | 2,326 |
| Over 365 days | **33,670** | 9,606 |
| | **118,649** | 48,314 |
| Allowance for doubtful debts | **(17,280)** | (11,404) |
| | **101,369** | 36,910 |

*Notes:*

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

ii. Included in the trade and retention receivables balances are debtors with an aggregate carrying amount of approximately HK$39,068,000 (2007: HK$528,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| 90 - 180 days | **–** | – |
| 181 - 365 days | **22,678** | 528 |
| Over 365 days | **16,390** | – |
| Total | **39,068** | 528 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 26. TRADE AND RETENTION RECEIVABLES *(Continued)*

*Notes: (Continued)*

iii. The movement of the allowance for doubtful debts is as follows:

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At the beginning of the year | **11,404** | 10,504 |
| Provision of allowance for doubtful debts | **7,183** | 2,409 |
| Reversal of allowance for doubtful debts | **(1,307)** | (1,509) |
| At the end of the year | **17,280** | 11,404 |

## 27. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Contracts in progress at the balance sheet dates: | | |
| Contract cost incurred plus recognised profit less recognised loss | **318,399** | – |
| Less: progress billing received and receivable | **(248,107)** | – |
| | **70,292** | – |
| Analysed for reporting purposes: | | |
| Amounts due from customers for contract works | **88,596** | – |
| Amounts due to customers for contract works | **(18,304)** | – |
| | **70,292** | – |

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Prepayments | **21,840** | 3,870 |
| Deposits | **4,560** | 22,080 |
| Other receivables | **74,495** | 7,990 |
| | **100,895** | 33,940 |

## 29. AMOUNT DUE FROM A MINORITY SHAREHOLDER/AMOUNT DUE FROM AN ASSOCIATE

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

## 30. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **120,041** | 92,190 | **68,335** | 62,994 |
| Less: Pledged deposits for construction of buildings | – | (62) | – | – |
| Pledged deposits for bills payable repayable within one year | – | (728) | – | – |
| Cash and cash equivalents | **120,041** | 91,400 | **68,335** | 62,994 |

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. As at 30 September 2008, there is no deposit pledged to secure bills payable and the construction of buildings. As at 30 September 2007, deposits amounting to HK$728,000 had been pledged to secure bills payable and other deposits amounting to HK$62,000 had been pledged to secure the construction of buildings.

As at 30 September 2008, the cash and bank balances of the Group denominated in Renminbi amounted to approximately HK$37,431,000 (2007: HK$17,307,000), which were deposits with banks in the PRC.

## 31. TRADE AND BILLS PAYABLES

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 - 90 days | **18,590** | 2,732 |
| 91 - 180 days | **16,483** | 2,892 |
| 181 - 365 days | **14,110** | 641 |
| Over 365 days | **16,933** | 6,774 |
| | **66,116** | 13,039 |

## 32. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Accrued liabilities | 7,482 | 9,411 |
| Deposits received | 11,498 | 663 |
| Other payables | 79,226 | 21,109 |
| | 98,206 | 31,183 |

## 33. INTEREST-BEARING BANK AND OTHER LOANS

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Repayable within one year: | | |
| Secured bank loans | 19,102 | 19,656 |
| Unsecured other loans | 17,242 | 12,137 |
| | 36,344 | 31,793 |

*Notes:*

i. As at 30 September 2008, the Group's secured bank loans and other bank facilities were secured by (a) charges on the Group's bank deposits of approximately HK$ Nil (2007: HK$790,000), (b) legal charges on the Group's leasehold land, leasehold buildings, and plant and machinery with carrying values of approximately HK$3,733,000 (2007: HK$3,498,000), HK$9,550,000 (2007: HK$6,410,000) and HK$4,958,000 (2007: HK$5,892,000) respectively, and (c) guarantee by a director of a subsidiary of the Company.

ii. All bank loans of the Group were fixed interest rate bank loans with maturity date on or before the end of April 2009. The interest rates of the Group's bank loans ranged from 6.68% to 6.85% (2007: 5.61% to 7.46%) per annum.

iii. The other loans of the Group were unsecured, bearing interest at 12% (2007: 12%) per annum and were repayable on demand.

iv. As at 30 September 2008, the balances of the other loans included the borrowings of approximately HK$23,000 (2007: 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 approximately HK$2,000 (2007: HK$9,000).

## 34. AMOUNT DUE TO A MINORITY SHAREHOLDER/AMOUNT DUE TO AN ASSOCIATE

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

## 35. AMOUNTS DUE TO DIRECTORS

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 36. CONVERTIBLE NOTES

On 7 November 2007, the Company issued zero coupon convertible notes in the principal amount of HK$160,000,000 ("Lisai Convertible Notes") to third parties as part of the consideration for the acquisition of the entire equity interest in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited. The Lisai Convertible Notes will be matured on 6 November 2012. The note holder may convert the whole or part of the Lisai Convertible Notes into shares of the Company at an initial conversion price of HK$0.4 per share. The effective interest rate of the liabilities component of the Lisai Convertible Notes is approximately 9.896%.

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

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

| | **Lisai Convertible Notes** | **BEES Convertible Notes** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Issuance of convertible notes | 160,000 | 204,000 | 364,000 |
| Equity component | (60,210) | (87,910) | (148,120) |
| Liability component at date of issuance | 99,790 | 116,090 | 215,880 |
| Imputed interests charged | 8,877 | 6,966 | 15,843 |
| Liability component as at 30 September 2008 | 108,667 | 123,056 | 231,723 |

## 37. DEFERRED TAX LIABILITIES

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

| | **Convertible notes** |
|---|---|
| | *HK$'000* |
| As at 1 October 2006, 30 September 2007 and 1 October 2007 | – |
| Issuance of convertible notes | 24,440 |
| Credit to income statement for the year | (2,614) |
| As at 30 September 2008 | 21,826 |

## 37. DEFERRED TAX LIABILITIES *(Continued)*

As at the balance sheet date, the Group has unused estimated tax losses of approximately HK$174,247,000 (2007: HK$109,955,000) that are available for offsetting against future taxable profits of those companies which incurred the losses. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

### The Company

No deferred tax asset has been recognised in respect of estimated tax losses of approximately HK$15,344,000 (2007: HK$11,321,000) as at 30 September 2008 due to the unpredictability of future profit streams.

## 38. DEFERRED INCOME

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred income | **9,989** | – |

For the year ended 30 September 2008, certain subsidiaries of the Group are entitled to government grants of approximately HK$10,372,000 arising from the purchase of plant and equipment for marsh gas treatment and energy saving project. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as deferred income and amortised over the estimated useful life of the related plant and equipment acquired. During the year, deferred income of approximately HK$383,000 (2007: HK$ nil) was amortised and recognised in the income statement.

## 39. SHARE CAPITAL

**The Group and the Company**

| | **Number of ordinary shares** | | **Par value** | | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | | 2007 | |
| | ***'000*** | *'000* | ***US$'000*** | ***HK$'000*** | *US$'000* | *HK$'000* |
| **Authorised (ordinary share of US$0.01 each):** | | | | | | |
| At the beginning of the year | **5,000,000** | 2,000,000 | **50,000** | **390,000** | 20,000 | 156,000 |
| Increase in authroised share capital *(note i)* | **3,000,000** | 3,000,000 | **30,000** | **234,000** | 30,000 | 234,000 |
| At the end of the year | **8,000,000** | 5,000,000 | **80,000** | **624,000** | 50,000 | 390,000 |
| **Issued and fully paid:** | | | | | | |
| At the beginning of the year | **2,957,360** | 1,628,160 | | **230,667** | | 126,989 |
| Issuance of shares for acquisition of subsidiaries *(note ii)* | **1,500,000** | – | | **117,000** | | – |
| Placing of shares *(note iii)* | **1,190,752** | 1,325,600 | | **92,878** | | 103,397 |
| Exercise of share options *(note iv)* | **5,000** | 3,600 | | **390** | | 281 |
| At the end of the year | **5,653,112** | 2,957,360 | | **440,935** | | 230,667 |

## 39. SHARE CAPITAL *(Continued)*

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

As per the resolution 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 shares of US$0.01 each by the creation of an additional of 3,000,000,000 shares of US$0.01 each.

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

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

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

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

On 29 May 2007, the Company allotted and issued an aggregate of 325,600,000 shares by way of placing to independent investors at a price of HK$0.095 per share. The net proceeds of approximately HK$30,000,000 were used for general working capital of the Group.

On 27 July 2007, the Company allotted and issued an aggregate of 1,000,000,000 shares by way of placing to independent investors at a price of HK$0.12 per share. The net proceeds of approximately HK$118,000,000 comprise of approximately HK$80,000,000 were used for the development of the existing business of the Group and approximately HK$38,000,000 were used for general working capital of the Group.

## 39. SHARE CAPITAL *(Continued)*

(iii) *(Continued)*

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

During the year ended 30 September 2007, certain option holders exercised their option rights to subscribe for an aggregate of 3,600,000 shares at an exercise price of HK$0.078 per share. The net proceeds from the exercise of option rights amounted to approximately HK$281,000.

## 40. 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) part-time employees 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 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. There was no outstanding share options as at 30 September 2008.

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 40. SHARE OPTION SCHEME *(Continued)*

### (a) Pre-IPO Share Option Plan *(Continued)*

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

| | Number of share options outstanding under the Pre-IPO Share Option Plan | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding as at 1 October 2006 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 30 September 2007 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 30 September 2008 | Exercisable as at 30 September 2008 | Date of grant | Exercise period | Adjusted exercise price HK$ (note) |
| Directors | | | | | | | | | | | | | |
| Mr. Wu Shu Min | 5,000,000 | – | – | – | 5,000,000 | – | (5,000,000) | – | – | – | 07-01-2000 | 07-01-2000 to 06-01-2008 | 0.150 |
| | 10,000,000 | – | – | – | 10,000,000 | – | – | (10,000,000) | – | – | 26-02-2000 | 26-02-2000 to 25-02-2008 | 0.150 |
| | 15,000,000 | – | – | – | 15,000,000 | – | (5,000,000) | (10,000,000) | – | – | | | |

*Note:*

1. 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. As at 30 September 2008, the number of shares issuable under share options granted under the Share Option Plan was 27,300,000, which represented approximately 0.5% of the Company's shares in issue as at that date.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 40. SHARE OPTION SCHEME *(Continued)*

### (b) Share Option Plan *(Continued)*

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of 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:

| | Number of share options outstanding under the Share Option Plan | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding as at 1 October 2006 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 30 September 2007 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 30 September 2008 | Exercisable as at 30 September 2008 | Date of grant | Exercise period | Exercise price *HK$* |
| Directors | | | | | | | | | | | | | |
| Mr. Wu Shu Min | 10,000,000 | – | – | – | 10,000,000 | – | – | – | 10,000,000 | 10,000,000 | 07-03-2002 | 07-03-2002 to 21-12-2011 | 0.465 |
| | 3,000,000 | – | – | – | 3,000,000 | – | – | – | 3,000,000 | 3,000,000 | 05-06-2003 | 05-06-2003 to 21-12-2011 | 0.078 |
| Mr. Xu Zhi Feng | 1,000,000 | – | – | – | 1,000,000 | – | – | – | 1,000,000 | 1,000,000 | 05-06-2003 | 05-06-2003 to 21-12-2011 | 0.078 |
| | 14,000,000 | – | – | – | 14,000,000 | – | – | – | 14,000,000 | 14,000,000 | | | |
| Other employees | | | | | | | | | | | | | |
| In aggregate | 800,000 | – | – | – | 800,000 | – | – | – | 800,000 | 800,000 | 01-03-2002 | 01-03-2002 to 21-12-2011 | 0.475 |
| | 3,600,000 | – | (3,600,000) | – | – | – | – | – | – | – | 05-06-2003 | 05-06-2003 to 21-12-2011 | 0.078 |
| | – | 12,500,000 | – | – | 12,500,000 | – | – | – | 12,500,000 | 12,500,000 | 29-05-2007 | 29-05-2007 to 21-12-2011 | 0.214 |
| | 18,400,000 | 12,500,000 | (3,600,000) | – | 27,300,000 | – | – | – | 27,300,000 | 27,300,000 | | | |

## 40. SHARE OPTION SCHEME *(Continued)*

### (b) Share Option Plan *(Continued)*

As at 30 September 2008, 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 Share Option Plan would, under the present capital structure of the Company, result in the issue of 27,300,000 additional ordinary shares and cash proceeds to the Company of approximately HK$8,017,000 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 Binomal Model, the value and adjusted value of the options granted during the year ended 30 September 2007 are as follows:

| | |
|---|---|
| Date of granted: | 29 May 2007 |
| Total number of share options: | 12,500,000 |
| Option value: | HK$0.155761 |
| | |
| Variables | |
| - 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 at the date of grant.

## 41. RESERVES

### (a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 29 and 30.

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.

## 41. RESERVES *(Continued)*

### (b) The Company

| | Share Premium | Convertible notes reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1 October 2006 | 44,929 | – | (199,710) | (154,781) |
| Placing of new shares | 47,535 | – | – | 47,535 |
| Cost of placing of new shares | (1,677) | – | – | (1,677) |
| Net loss for the year | – | – | (43,629) | (43,629) |
| As at 30 September 2007 and 1 October 2007 | 90,787 | – | (243,339) | (152,552) |
| Issuance of shares for acquisition of subsidiaries | 233,000 | – | – | 233,000 |
| Exercise of share options | 360 | – | – | 360 |
| Placing of new shares | 184,490 | – | – | 184,490 |
| Cost of placing of new shares | (2,041) | – | – | (2,041) |
| Issuance of convertible notes | – | 148,120 | – | 148,120 |
| Deferred tax | – | (24,440) | – | (24,440) |
| Net loss for the year | – | – | (13,598) | (13,598) |
| As at 30 September 2008 | 506,596 | 123,680 | (256,937) | 373,339 |

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

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Particulars of issued/ registered capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| II Networks International Limited#### | BVI | 16,666,667 ordinary shares of US$0.01 each | 100 | – | Investment holding and trading of security |
| IIN Network Technology Limited | Hong Kong | 400,000,000 ordinary shares of HK$0.005 each | – | 100 | Investment holding |
| Far High International Limited#### | BVI | 1 ordinary share of US$1 each | – | 100 | Investment holding |
| Wujiang Shengxin Optoelectronics Technology Co., Limited## | the PRC | RMB22,350,000 | – | 51 | Manufacturing and sale of communication cables and optical cables |
| Shenzhen Lisai Industrial Development Company Limited### | the PRC | RMB30,000,000 | – | 100 | Provision of environmental protection solutions |
| Beijing Enterprises Ever Source Limited#### | BVI | US$37,562 | – | 100 | Investment holding |
| Beijing Enterprises Ever Source (Hong Kong) Limited#### | BVI | HK$198 | – | 100 | Investment holding |
| Beijing Enterprises Ever Source Technology Limited | Cayman Islands | HK$2,170,000 | – | 100 | Investment holding |
| 北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd.)### | the PRC | US$300,000 | – | 100 | Production and sales of machineries geothermal energy systems |
| 北京北控恒有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Company Limited)# | the PRC | US$3,000,000 | – | 100 | Technical know-how holding |
| 北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited)### | the PRC | RMB1,000,000 | – | 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.)## | the PRC | RMB118,685,285 | – | 91.4 | Production and sales of geothermal energy systems |
| 北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited)### | the PRC | RMB50,000,000 | – | 100 | Installation of energy systems |

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

# 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.

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

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

## 43. ACQUISITIONS OF SUBSIDIARIES

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

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

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

| | Carrying amounts before the acquisition | Fair value adjustment | Fair value |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 13,711 | – | 13,711 |
| Inventories | 396 | – | 396 |
| Trade receivables | 13,952 | – | 13,952 |
| Prepayments, deposits and other receivables | 2,672 | – | 2,672 |
| Amount due from shareholders | 2,184 | – | 2,184 |
| Bank balances and cash | 816 | – | 816 |
| Trade payables | (5,281) | – | (5,281) |
| Accrued liabilities, deposits received and other payables | (8,641) | – | (8,641) |
| Interest-bearing bank and other loans | (3,182) | – | (3,182) |
| Amount due to a related company | (2,080) | – | (2,080) |
| Net assets acquired | 14,547 | – | 14,547 |
| Goodwill | | | 378,087 |
| | | | 392,634 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

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

| | *HK$'000* |
|---|---|
| Consideration satisfied by: | |
| Cash | 82,184 |
| Fair value of shares issued *(Note)* | 150,000 |
| Issuance of convertible notes | 160,000 |
| Transaction cost directly attributable to the acquisition | 450 |
| Total consideration | 392,634 |

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

*Note:* As part of the consideration for the acquisition, 500,000,000 ordinary shares of the Company with par value of USD0.01 each were issued. The fair value of issued ordinary shares of the Company, determined using the published price available at the date of acquisition of HK$0.30 per share, amounted to HK$150,000,000.

During the year ended 30 September 2008, the Lisai Group contributed approximately HK$28,826,000 to the Group's turnover and profit of approximately HK$5,146,000 to the Group's profit for the year.

## 43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

### (b) Acquisition of the Beijing Enterprises Ever Source Limited

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

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

## 43. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

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

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

*Note:* As part of the consideration for the acquisition, 1,000,000,000 ordinary shares of the Company with par value of USD0.01 each were issued. The fair value of issued ordinary shares of the Company, determined using the published price available at the date of acquisition of HK$0.20 per share, amounted to HK$200,000,000.

During the year ended 30 September 2008, BEES Group contributed approximately HK$76,095,000 to the Group's turnover and profit of approximately HK$33,123,000 to the Group's profit for the year.

If the above acquisitions had been completed on 1 October 2007, the total restated turnover and profit of the Group for the year ended 30 September 2008 would have been HK$267,679,000 and HK$8,210,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 October 2007, nor is it intended to be a projection of future results.

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 44. WINDING UP OF SUBSIDIARIES

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

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

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

## 45. DISPOSAL OF A SUBSIDIARY

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

| | *HK$'000* |
|---|---|
| Net assets and liabilities disposed of: | |
| Bank balances and cash | 3 |
| Other payables | (1,230) |
| Amounts due to intercompanies | (1,816) |
| | (3,043) |
| Release of translation reserve | 167 |
| | (2,876) |
| Gain on disposal | 946 |
| Total consideration | (1,930) |

## 45. DISPOSAL OF A SUBSIDIARY *(Continued)*

| | *HK$'000* |
|---|---|
| Satisfied by: | |
| Cash paid | (114) |
| Amounts due to intercompanies | (1,816) |
| | (1,930) |
| Net cash outflow arising from disposal: | |
| Cash paid | (114) |
| Cash and bank balances | (3) |
| | (117) |

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

## 46. MAJOR NON-CASH TRANSACTIONS

The Group and the Company did not have any significant non-cash transactions as at the balance sheet date (2007: Nil).

## 47. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at the balance sheet date (2007: Nil).

## 48. OPERATING LEASE ARRANGEMENTS

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

As at 30 September 2008, 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:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **7,868** | 179 |
| In the second to fifth year inclusive | **18,303** | – |
| After fifth year | **39,665** | – |
| | **65,836** | 179 |

# Notes to the Consolidated Financial Statements

*For the year ended 30 September 2008*

## 49. CAPITAL COMMITMENTS

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | | |
| – Acquisition of subsidiaries *(note i)* | – | 440,000 |
| – Capital injection in an associate | **12,507** | – |

*Note:*

(i) 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 the Shenzhen Lidesui and Lisai at an aggregate consideration of HK$440,000,000, which shall be satisfied as to (i) HK$80,000,000 by cash; (ii) HK$200,000,000 by the issue of the consideration shares; and (iii) HK$160,000,000 by the issue of the convertible notes. Details of the acquisition are set out in the Company's circular dated 3 October 2007.

## 50. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year ended 30 September 2008, the Group had entered into the following material related party transactions:

### Key management personnel remunerations

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **3,838** | 2,778 |
| Pension scheme contributions | **104** | – |
| | **3,942** | 2,778 |

Details of the balances with related parties as at the balance sheet dates are set out in notes 29, 34 and 35.

## 51. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 December 2008.