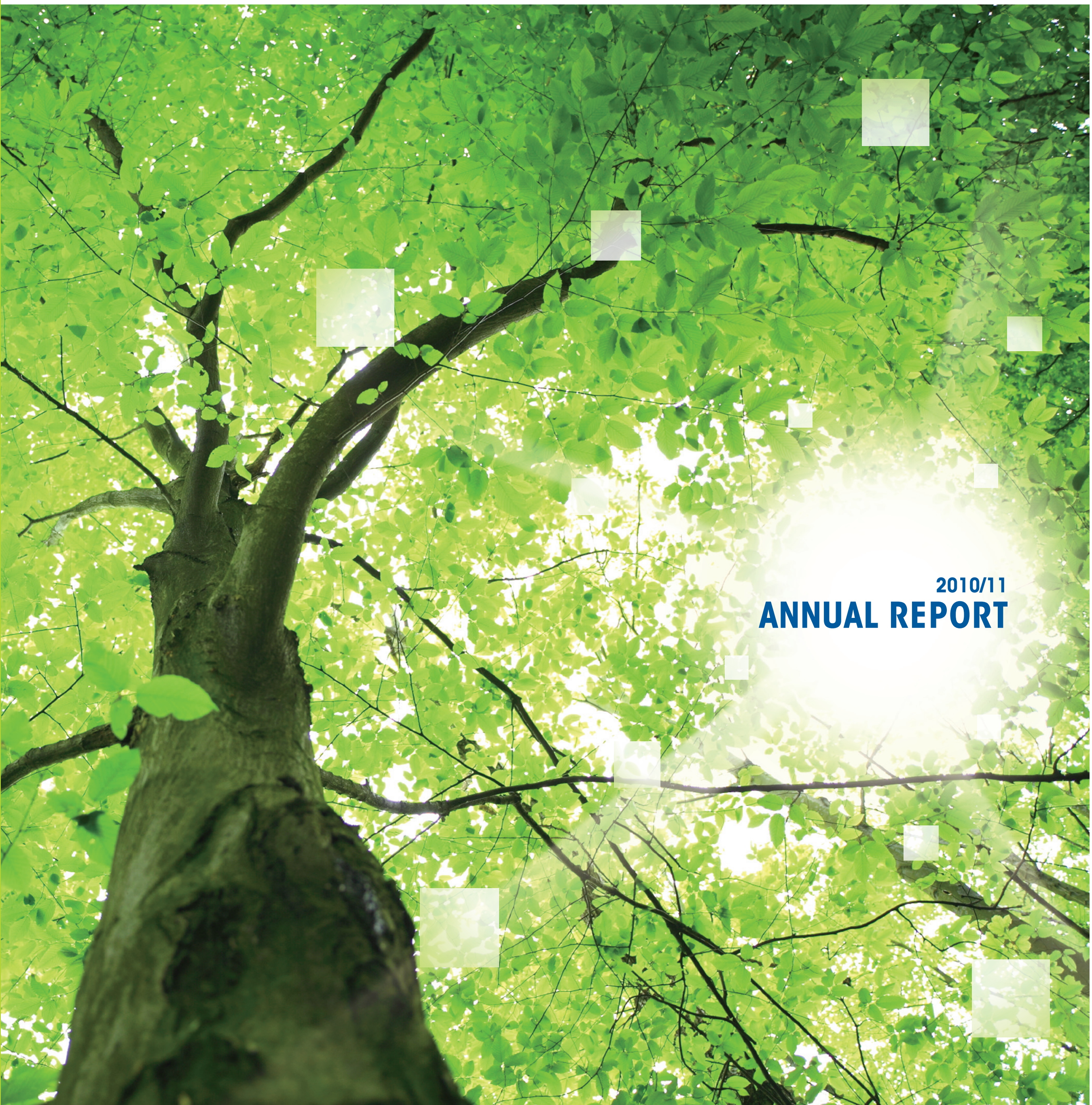
CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



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Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

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

Non-executive director

Fu Hui Zhong

Independent non-executive directors

Chan Man Kuen Laura
Jia Wenzeng
Chow Wan Hoi Paul

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1301, York House, The Landmark
15 Queen's Road Central
Central
Hong Kong

COMPLIANCE OFFICER

Wu Shu Min

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Wu Shu Min
Wong Lai Yuk

PRINCIPAL BANKER

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
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
44/F Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITORS

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

STOCK CODE

8128

COMPANY WEBSITE

www.iini.com

Chairman's Statement

To all Shareholders:

On behalf of the board of directors (the "Board") of China Ground Source Energy Limited ("the Company"), I'm pleased to report to all the shareholders on the final results of the Company and its subsidiaries (collectively referred to as "CGS" or the "Group") for the year ended 31 March 2011.

The Group has achieved a satisfactory result by delivering a profit for the Review Period of approximately HK$36.3 million as compared to losses for the previous two financial periods. The Group's turnover amounted to HK$322.2 million, which is in line with that of the six months period ended 31 March 2010 (the "Last Audited Period"). However, our gross profit margin has substantially increased to 39% for the Review Period as compared to 26% for the Last Audited Period due to the enhancement of marketing strategy and stringent control on cost of sales.

The profit from operations for the Review Period was HK$56.0 million as compared to HK$43.0 million of the Last Audited Period. Taking out the one-off items included gain on disposal of available-for-sale investments and reversal of allowance for doubtful debts, the profit from operations for the Review Period in fact proportionally increased by approximately 2 times. The significant increase was mainly contributed by the increase of gross profit margin and the decreases of other operating expenses and allowance for doubtful debts for the Review Period.

During the Review Period, the Group had disposed of its shareholding interests in Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai") in order to focusing its resources in developing shallow ground energy utilisation business. Shallow ground energy utilisation business operated by Ever Source Scientific and Technology Development Co., Ltd. ("HYY") has been the principal business and the major income generator of the Group.

HYY has firmly pursued and focused on the business of ground source energy heat pump systems for heating/cooling, which use ground source energy as an alternative source of energy for heating/cooling. In 2010, HYY celebrated its 10th anniversary which marked that a company with sustainable history in running this new energy business with accumulated expertise and passion not matched by many in the industry. In the past ten years, HYY has established itself as a research & development-based technology center; a design center focusing system integration design; a production base for manufacturing its heat pump and its construction teams for implementation of the systems integration; a customer service center to providing quality after-sale services. With professional teams to providing professional services, the market share of our products has continuously been expanding. Building projects using our ground source energy heat pump systems scattered in more than 20 provinces and reached 450 construction projects, covering office buildings, hospitals, schools, hotels, large shopping malls, residential quarters, luxury villas, stadiums, exhibition halls and swimming pool etc.

As more than 8 million square meters of buildings area has been installed with our ground source energy heat pump system for heating/cooling throughout the PRC, it is proven that HYY has made intense efforts on research and development, design and promotion of ground source heat pump system and their contributions to the new energy industry was highly recognized by the PRC governments, the industry experts and our customers.

In addition, in co-operation with Trane, HYY ground source energy heat pump environmental systems, which are based on HYY's international invention – the single well circulation ground heat exchange technology, have been successfully applied in schools in Nebraska, United States. As the two-year heating operation achieved significant energy saving, the systems were awarded "Energy Star" by the U.S. government on 10 January 2011.

With all the these achievements and results, it signifies HYY's success and professionalism in utilising ground source energy as alternative energy and we believe that the Company will continue to grow and play its recognised role in the market.

Chairman's Statement

In the "12th Five-Year Plan" of the PRC Government, it has expressly stated that "with a construction resource-saving and environmentally-friendly society as the basis and means of accelerating the transformation of economic development will be firmly adhered to. It will thoroughly implement the State's fundamental policies in resource conservation and environmental protection, which shall include energy saving, reduction of greenhouse gas emissions density, development of circular economy, and promoting low carbon technologies. Accordingly, China's investments in renewable energy are expected to grow exponentially in size and in intensity.

As the concept of utilisation of ground source energy as an alternative energy for heating has been well accepted by the industry experts and brought into regional development planning by governments at various levels and in different regions which will drive the Group's shallow ground energy utilisation business into a high-speed development. The Company will firmly grasp the opportunity created by the Chinese government of its effort to speed up the promotion of resource conservation and environmental protection, and fully leveraged on the advantage of our competitive ground source heat pump technology and keeping abreast of the times of the Group in the industry. We strive to uplifting our performance as well as bringing a fruitful return to all our shareholders in the coming years.

I would like to take this opportunity to express my highest tribute to all employees and the directors for their long-term dedication and hard work and express my heartfelt thanks to all customers, business partners and shareholders for their valuable support to the Group.

Sincerely,

Chan Wai Kay Katherine
Chairman

Hong Kong, 29 June 2011

Management Discussion and Analysis

FINANCIAL REVIEW

The following table provides brief summary of our Company's financial operations. For more detailed information, please refer to the consolidated financial statements for the year ended 31 March 2011 and 2010.

	(12 months) From 1 April 2010 to 31 March 2011		(6 months) From 1 October 2009 to 31 March 2010	
	HK$'000	*%*	*HK$'000*	*%*
Continuing operations				
Turnover:				
– Sales and installation of shallow ground energy utilisation system	**317,843**	**94**	154,339	85
– Maintenance services for shallow ground energy utilisation system	**2,760**	**1**	6,154	4
– Gross proceeds from trading of securities	**–**	**–**	1,830	1
– Dividend income	**1,608**	**1**	–	–
Total turnover from continuing operations	**322,211**	**96**	162,323	90
Discontinued operations				
Turnover:				
– Sewage and marsh gas treatment income	**14,016**	**4**	18,505	10
Total turnover from continuing and discontinued operations	**336,227**	**100**	180,828	100

TURNOVER

Total turnover from continuing operations for the year were approximately HK$322 million, as compared with HK$162 million for the six months ended 31 March 2010. The turnover of approximately HK$14 million and HK$18.5 million from discontinued operations for the year ended 31 March 2011 and six months ended 31 March 2010 respectively, was contributed by environmental protection segment, which was disposed of by the Group in August 2010.

During the period under review, the Company recorded net profit of approximately HK$36 million compared with a loss of approximately HK$49 million for the six months ended 31 March 2010. The increase in net profit during 2011 from 2010 was primarily due to the impairment loss on goodwill and property, plant and equipment in 2010.

GROSS PROFIT MARGIN

Gross profit from the Group's continuing operations for the year was approximately HK$125 million or, as a percentage of revenue, 38.9%. (31st March 2010: HK$43 million, 26.5% of revenue). The increase was mainly due to higher profit margin from shallow ground energy utilisation.

OTHER INCOME

Other income are non-recurring in nature and representing 1% and 10% of total turnover from continuing operations for the year ended 31 March 2011 and six months ended 31 March 2010, respectively.

Further information regarding the Company's other income may be referred to note 9 "Other Income" to the consolidated financial statements of this report.

Management Discussion and Analysis

SELLING & DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSE

	(12 months period) 31 March 2011		(6 months period) 31 March 2010	
	HK$'000	***% of turnover***	*HK$'000*	*% of turnover*
Share based payment expense	**22,150**	**6.9**	907	0.6
Lease payments under operating leases in respect of land and buildings	**7,151**	**2.2**	3,304	2.0
Director emoluments	**17,239**	**5.4**	3,480	2.1

Total selling and distribution expenses were approximately HK$11 million and HK$6 million for the year ended 31 March 2011 and six months ended 2010, respectively.

Total administrative expenses were approximately HK$64 million and HK$32 million, or as a percentage of turnover, remain unchanged at 20% for both year ended 31 March 2011 and six months ended 31 March 2010.

SEGMENTAL INFORMATION

The Company reportable operating segment consists of shallow ground energy utilisation, securities investment and trading segment.

The Company's environmental protection segments were reclassified as discontinued operations with the disposal of environmental protection segment in August 2010.

Further information regarding the Company's operating segments may be referred to note 8 "Segment Information" to the consolidated financial statements of this report.

FINANCIAL RESOURCES AND LIQUIDITY

	(12 months period) 31 March 2011	(6 months period) 31 March 2010
	HK$'000	*HK$'000*
Net cash inflow from operating activities	**6,499**	48,731
Net cash outflow from investing activities	**(74,359)**	(30,008)
Net cash inflow from financing activities	**70,757**	3,045

Our principal sources of liquidity have been derived from cash from operations and the issuance of ordinary shares.

Net cash inflow from operating activities was approximately HK$7 million for the year ended 31 March 2011 compared to approximately HK$49 million for the six months ended 31 March 2010. The changes in cash provided by operating activities are principally due to timing of payment received for account receivable, the timing of payment for account payable and income taxes paid.

Cash used in investing activities was approximately HK$74 million and HK$30 million for the year ended 31 March 2011 and six months ended 31 March 2010, respectively. Cash used in investing activities consist primarily of cash used for fixed asset additions for all period presented, net of cash received from disposal of available-for sale shares, disposal of fixed assets and disposal of subsidiaries.

Cash provided by financing activities was approximately HK$71 million and HK$3 million for the year ended 31 March 2011 and six months ended 31 March 2010, respectively.

Management Discussion and Analysis

CHARGES OF GROUP ASSETS

As at 31 March 2011, no group assets have been charged.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

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

As at 31 March 2011, the Company had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Company, based on total borrowings (including interest-bearing bank loans and convertible notes) to the equity (including all capital and reserves) of the Company, decreased to 0% for the period under review (2010: 19%). The lower gearing ratio is largely due to the increase in equity attributable to owners of the Company as a result of the share subscription and transfer of convertible notes during the Period under review.

EMPLOYEES

As at 31 March 2011, the Company employed approximately 500 people (2010: approximately 600). The decrease in the number of employees compared to 2010 was due to the disposal of environmental protection segment.

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

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

SHARE OPTION SCHEMES

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. During the Period under review, 47,700,000 share options were exercised at the price of HK$0.3304 per share option for an aggregate gross proceeds of approximately HK$16 million.

The detailed disclosures relating to the Company's share option scheme are set out in note 46 to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at 31 March 2011, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year under review (2010: Nil).

CAPITAL STRUCTURE

	(12 months period) 31 March 2011 HK$'000	(6 months period) 31 March 2010 HK$'000
Convertible notes	–	145,919
Imputed Interest	**7,486**	8,218

The convertible notes represent the liability component of the outstanding convertible notes which were issued to the vendor by the Company in 2009 as part of the consideration to acquire shallow ground energy segment. The decrease in the liability component of convertible notes was due to the transfer in September 2010. For more details of the transfer, please refer to the Company announcement published on the GEM website dated 14 September 2010.

The imputed interest for the Period under review of convertible notes amounted to approximately HK$7 million. (2010: HK$8 million)

On 14 February 2011, the Board proposed capital reorganisation and was approved by the shareholders of the Company on 23 March 2011 EGM. For more details of the capital reorganisation, please refer to the Company announcement dated 14 and 28 February 2011 and poll results of the EGM published on the GEM website on 23 March 2011.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 45 to the consolidated financial statements of this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

Our Company anticipates that it will be necessary to make substantial capital expenditures for the development and operation of its shallow ground energy segment in the future. There can be no assurance that debt and equity financing, or cash generated by operations, will be sufficient to meet future investment programs. The Company may enter into transactions financed partially or wholly with debt, which may increase the debt levels. In our normal course of business, the Company evaluates properties for potential acquisition or disposals which, if appropriate, would be presented to the Board for consideration. The Company will continue to explore new opportunities in energy-related projects and look for potential in PRC and overseas.

MAJOR ACQUISITIONS AND DISPOSALS

Details of major disposal transaction are set out in note 40 to the consolidated financial statements of this report.

BUSINESS REVIEW AND OUTLOOK

With rational and practical adjustments and efforts, the Group currently has become a professional new energy group focusing on scientific research and promotion of using ground source energy as an alternative energy for heating (cooling).

The business models of the Group include:

1. Production of patent ground source energy collection products and commissioned processing of the relevant patent products;

2. Design of ground source energy utilisation system and equipment integration, sales and installation centering on patent products;

3. Energy contracting management for ground source energy heat pump system;

4. Construction and development of self-built demonstration projects with application of ground source energy;

5. Construction and development of ground source energy heating/cooling station for infrastructures of a city.

Ever Source Scientific and Technology Development Co., Ltd. ("HYY") is the inventor of a series of international ground source energy utilisation invention patent technology which is used by the Group. Having been engaged in the development and utilisation of ground source energy for nearly a decade, HYY's market shares grew at a steady pace. Based on its ground (heat) energy collection technology through "single-well circulation heat exchange" which has attained proprietary intellectual property rights and international invention patent, HYY offers optimised integration of ground source energy utilisation system in combination with globally advanced heat pump technology. HYY is the only domestic company which, in the capacity of designer of ground source energy collection system, cooperates with construction companies in promotion of HYY ground (heat) source energy heat pump environmental system.

Compared with other clean energies, the utilisation of shallow ground energy has prominent advantages as it can be used as an alternative energy for heating and it may operate at costs equivalent to those of conventional energy. On 17 October 2010, 17 renowned Chinese experts majoring in heating and ventilating, geological and water affairs hosted the experts review meeting for HYY projects operating for over 7 years in Beijing, which has justified the above conclusion.

In the past ten years, five experts review meetings has been hosted to evaluate how the "Single-well Circulation" exchange technology for ground source energy collection applied to ground source energy heat pump environmental system will protect water resources. The outcome of the experts reviews has confirmed that "this technology offers a better solution to problems such as sand migration, uneven settlement of ground surface and water loss. It will not destroy the natural distribution of underground water, and therefore has prominent advantages over traditional groundwater source heat pump technology. Extraction of shallow ground energy is achieved by a soil source heat exchanger with water as media rather than a water-collecting device. Such extraction does not have any impact on the quality of underground water, as evidenced by no notable changes in each water quality index."

The positive affirmation in respect of the "Single-well Circulation" technology given by the experts review meetings and the proven success in the implementation of such technology for 8 million square meters of building area will provide positive impetus for the future development of our substitute energy business.

Given the unique advantages of Xianyuwan (仙浴灣鎮) of Dalian where our ground source energy demonstration projects are located, the 12th National Games Organizing Committee and the 12th Sports committee of Dalian City have decided to construct a venue for yachting of 12th National Sports Game to be held in 2013 at the coastal area of Xianyuwan. The construction of this project and enhancement of comprehensive improvement by the local government will drive and facilitate the overall development and construction of the area. This will highlight the demonstration significance of utilization of ground source energy as an alternative energy for heating while facilitating the realization of the development object of the area, that is to construct it into a new charming coastal area driven by emerging industries such as sports and tourism, establishing a brand of "South for Sanya and North for Xianyuwan".

According to the relevant agreements entered into with Wafangdian municipal government and the development plan of the coastal economic area in Wafangdian City, the first class development work covering an area of 22.4 square kilometers of Xianyuwan is separated into five plots. The heating/cooling station using ground source energy for all the infrastructures of the city will first commence construction on plot A, covering an area of 4.12 square kilometers.

With the scientific research on utilisation of ground source energy as an alternative energy for heating and our core business model in full swing, as well as our innovative, sound and sustainable profit model, we believe that our substitute energy business will achieve substantial and stable growth, therefore further improve our operating results.

Biography of Directors

Ms. Chan Wai Kay Katherine (**"Ms. Chan"**), aged 52, the chairman of the Board and executive Director of the Company, holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and has extensive experience in supervising initial public offerings and other fund raising exercises conducted by companies in Asia. With various key positions previously held in listed companies, Ms. Chan has profound practicing knowledge in company's strategic planning and corporate management of listed companies.

Mr. Xu Shengheng (**"Mr. Xu"**), aged 48, the chief executive officer and executive Director of the Company. Mr. Xu holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has over 12 years of experience in the promotion, research and development of shallow ground energy as alternative energy for heating. The single well circulation ground heat exchange technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

Mr. Wu Shu Min (**"Mr. Wu"**), aged 48, an executive Director of the Company, has over 21 years experience in the PRC telecommunications industry, and started his career in the Science Research Institute of Hunan Telecommunications in 1985. In 1994, he joined Hunan Tricom Communication Equipment Co., Ltd. as its China representative before he established Hunan Internet Information Networks Company Ltd. in 1997.

Mr. Soo Kim Fui Jeffrey (**"Mr. Soo"**), aged 40, the chief financial officer and an executive Director of the Company, is a fellow member of Association of Chartered Certified Accountants (UK). Mr. Soo has over 11 years of experience in accounting and financial aspects.

Mr. Fu Hui Zhong (**"Mr. Fu"**), aged 50, the non-executive Director of the Company, obtained a Bachelor's Degree in Science and completed MBA core courses in Shanghai Jiao Tong University. He held key position in various IT companies in the PRC. He has intensive experience in operating resources consolidation and business management.

Ms. Chan Man Kuen Laura (**"Ms. Laura Chan"**), aged 38, an independent non-executive Director, the chairman of remuneration committee and member of audit committee of the Company, holds a bachelor degree in law. Ms. Laura Chan has over 10 years of experience in corporate administration aspect.

Mr. Jia Wenzeng (**"Mr. Jia"**), aged 68, an independent non-executive Director, the chairman of audit committee and member of remuneration committee of the Company, has been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Mr. Chow Wan Hoi Paul ("Mr. Chow"), aged 55, an independent non-executive Director and members of the audit committee and remuneration committee of the Company, has significant experience in accounting and finance and has been an Associate of the Institute of Chartered Accountants in England and Wales since 1983 and an Associate of the Institute of Chartered Accountants in Australia since 1988 and is a member of the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 50 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 March 2011 by business segments are set out in note 8 to the consolidated financial statements.

RESULTS

The Group's profit for the year ended 31 March 2011 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 26 to 104.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the financial year ended 31 March 2011, for the six months ended 31 March 2010 and for the last three financial years are set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 March	Six months ended 31 March	Year ended 30 September		
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)		
Turnover	**322,211**	162,323	365,674	235,037	117,647
Profit/(loss) before income tax	**38,775**	38,947	(173,078)	10,365	4,420
Income tax (expense)/credit	**(15,004)**	(12,618)	(714)	455	(1,153)
Profit/(loss) for the year/period from continuing operation	**23,771**	26,329	(173,792)	10,820	3,267
Profit/(loss) for the year/period from discontinued operation	**12,532**	(75,099)	(1,644)	–	–
Profit/(loss) for the year/period	**36,303**	(48,770)	(175,436)	10,820	3,267
Attributable to:					
Owners of the Company	**34,413**	(46,404)	(175,299)	9,170	2,594
Non-controlling interests	**1,890**	(2,366)	(137)	1,650	673
	36,303	(48,770)	(175,436)	10,820	3,267

Assets, liabilities and minority interests

	As at 31 March		As at 30 September		
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)		
Total assets	**1,265,000**	1,184,642	1,478,889	1,553,875	228,456
Total liabilities	**(235,445)**	(382,915)	(580,879)	(599,987)	(81,563)
Minority interests	**(23,188)**	(45,237)	(49,651)	(55,343)	(16,125)
Equity attributable to equity holders of the Company	**1,006,367**	756,490	848,359	898,545	130,768

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

As at 31 March 2011, the authorized share capital of the Company was US$160,000,000 divided into 4,000,000,000 shares of US$0.04 each and the issued share capital was 2,065,307,117 shares of US$0.04 each.

In the Company's extraordinary general meeting held on 23 March 2011, the shareholders of the Company resolved that the issued and paid up share capital of the Company be reduced ("Capital Reduction") by cancelling the paid-up capital to the extent of US$0.03 on each shares of US$0.04 of the Company in issue so that each issued Share of US$0.04 each be reduced to US$0.01 each which became effective on 23 June 2011. The Shareholders also resolved that the share subdivision of each of the authorised but unissued Shares of par value US$0.04 each into four new shares of par value US$0.01 each. Upon the effective date of capital reduction and share subdivision as mentioned above, the authorized share capital of the Company was US$160,000,000 divided into 16,000,000,000 shares of US$0.01 each and the issued share capital was 2,065,307,117 shares of US$0.01 each.

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 46 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 49(c) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 31 March 2011, the Company's reserve available for distribution amounted to HK$285.6 million after net off the accumulated losses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 21% of the total sales for the year and sales to the largest customer included therein amounted to approximately 6%. Purchases from the Group's five largest suppliers accounted for approximately 31% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 23%.

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

Non-executive directors:
Mr. Fu Hui Zhong

Independent non-executive directors:
Ms. Chan Man Kuen Laura
Mr. Jia Wenzeng
Mr. Chow Wan Hoi Paul

Note: In accordance with article 87 of the Company's articles of association, Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Ms. Chan Man Kuen Laura has informed the Company that she wishes to retire and not offer herself for re-election at the forthcoming annual general meeting.

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

BIOGRAPHY OF DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 14 and 48 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 31 March 2011, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(a) Long position and short positions in shares and equity derivatives

Name of director	Number of issued ordinary shares of US$0.04 each in the Company held and the capacity Capacity	Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
Ms. Chan Wai Kay Katherine *(Note 1)*	Beneficial owner	34,000,000 (L)	1.65%	30,750,000 (L)		–
	Interest of spouse	10,074,000 (L)	0.49%	–	74,824,000	3.62%
Mr. Wu Shu Min *(Note 2)*	Beneficial owner	36,505,750 (L)	1.77%	28,600,000 (L)	65,105,750	3.15%
Mr. Xu Shengheng *(Note 3)*	Beneficial owner	608,319,000 (L)	29.45%	25,350,000 (L)		
	Beneficial owner	608,300,000 (S)	29.45%			
	Interest of spouse	702,000 (L)	0.03%	–	634,371,000	30.72%
Ms. Chan Man Kuen Laura	Beneficial owner	1,250,000 (L)	0.06%	1,500,000 (L)	2,750,000	0.13%

(L): Long position, (S): Short position

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 34,000,000 shares and 30,750,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond ("Mr. Chow"), spouse of Ms. Chan, holds 10,074,000 Shares of the Company ("Shares"). Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.

2. Mr. Wu Shu Min is interested in 36,505,750 Shares and 28,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

3. Mr. Xu Shengheng ("Mr. Xu") is interested in 608,319,000 Shares and 25,350,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in the 702,000 Shares in which Ms. Luk is interested.

4. Ms. Chan Man Kuen Laura holds 1,250,000 Shares and 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

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

(b) Long Position under Equity Derivatives

(i) The Previous Scheme

On 22 November 2001, the Company conditionally adopted a share option scheme (the "Previous Scheme") for a period of ten years from the date on which the Previous Scheme was adopted. The Previous Scheme became unconditional on 30 November 2001. The Previous Scheme was terminated on 7 August 2010 but the provisions of the Previous Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or as may be required in accordance with the provisions of the Previous Scheme. As at 31 March 2011, the following directors of the Company were interested in the following options under the Previous Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 March 2011
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.8600	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.3120	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

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

(b) Long Position under Equity Derivatives *(Continued)*

(ii) The New Plan

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "New Plan") for a period of ten years from the date on which the New Plan became unconditional. On 7 August 2010, the New Plan became unconditional and effective. Pursuant to the New Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the New Plan, to subscribe for shares in the Company under the terms of the New Plan. As at 31 March 2011, the following directors of the Company were interested in the following options under the New Plan:

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 March 2011
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Wu Shu Min	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Soo Kim Fui Jeffrey	9 September 2010	9 September 2010 to 8 September 2020	0.426	6,000,000
Mr. Fu Hui Zhong	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
Ms. Chan Man Kuen Laura	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Chow Wan Hoi Paul	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at 31 March 2011, 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 46 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 46 to the consolidated financial statements.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 March 2011, 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 and short positions in shares and equity derivatives

	Number of issued ordinary shares of US$0.04 each in the Company held and capacity					
Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
Luk Hoi Man *(Note 1)*	Beneficial owner	702,000 (L)	0.03%	–		
	Interest of spouse	608,319,000 (L)	29.45%	25,350,000 (L)	634,371,000	30.72%
	Interest of spouse	608,300,000 (S)	29.45%			
Financial International Holdings Ltd. *(Note 2)*	Beneficial owner	131,429,000 (L)	6.36%	–	131,429,000	6.36%
Grand Concord Group Ltd. *(Note 2)*	Beneficial owner/Interest of controlled corporation	131,429,000 (L)	6.36%	–	131,429,000	6.36%

(L): Long position, (S): Short position

Notes:

1. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu is interested in 608,319,000 Shares and 25,350,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 608,319,000 Shares and 25,350,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

2. Financial International Holdings Limited is wholly-owned by Grand Concord Group Ltd. Therefore, under SFO, Grand Concord Group Ltd. is deemed to be interested in 131,429,000 Shares.

Save as disclosed above, as at 31 March 2011, 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 48 to the consolidated financial statements.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the directors of the Company.

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul. The Audit Committee has reviewed the Group's audited annual results for the year ended 31 March 2011 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 23.

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 31 March 2011 have been audited by SHINEWING (HK) CPA Limited who shall retire and, being eligible, offer themselves for re-appointment as the auditors of the Company at the forthcoming annual general meeting.

For the six months period ended 31 March 2010, SHINEWING (HK) CPA Limited acted as auditors of the Company.

For and on behalf of the Board

Chan Wai Kay Katherine
Chairman

Hong Kong, 29 June 2011

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 31 March 2011 (the "Review Period"). This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

As at 31 March 2011, the Board comprised of eight Directors including four executive Directors, namely Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Soo Kim Fui Jeffrey, one non-executive Director, namely Mr. Fu Hui Zhong and three independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Ms. Chan Man Kuen Laura. Ms. Chan Wai Kay Katherine is the Chairman of the Board and Mr. Xu Shengheng is the chief executive officer of the Company. Details of background and qualifications of each Director are set out in the section headed "Biography of Directors" of this annual report.

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

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

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

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

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 31 March 2011, a total of ten regular and adhoc Board meetings were held.

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

During the year ended 31 March 2011, ten Board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees were as follows:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Ms. Chan Wai Kay Katherine	10/10	N/A	N/A
Mr. Xu Shengheng	9/10	N/A	N/A
Mr. Wu Shu Min	10/10	N/A	N/A
Mr. Soo Kim Fui Jeffrey	10/10	4/4	N/A
Non-executive Director			
Mr. Fu Hui Zhong	8/10	N/A	N/A
Independent non-executive Directors			
Ms. Chan Man Kuen Laura	8/10	4/4	0/0
Mr. Jia Wenzeng	8/10	4/4	0/0
Mr. Chow Wan Hoi Paul	7/10	4/4	0/0

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 March 2011, the roles of chairman and chief executive officer have been separately performed by Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng respectively.

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates and make recommendation to the Board for approval. During the Review Period, no directors was appointed.

AUDITORS' REMUNERATION

The audit works of the Group for the year ended 31 March 2011 were performed by SHINEWING (HK) CPA Limited. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the Review Period are set out below:

	Fee paid/payable	
	For the year ended 31 March	For the six months ended 31 March
Services rendered	**2011**	2010
	HK$'000	*HK$'000*
Audit services		
– SHINEWING (HK) CPA Limited	**1,350**	1,150
Non-audit services	**250**	350
Total fee paid/payable for the year/period	**1,600**	1,500

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly.

As at 31 March 2011, the audit committee comprises Mr. Jia Wenzeng (chairman of the audit committee), Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

QUALIFIED OPINION TO FINANCIAL STATEMENTS

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

Basis for qualified opinion

Corresponding figures and Gain on disposal of subsidiaries

As previously explained in our report dated 29 June 2010 on the Group's consolidated financial statements for the six months ended 31 March 2010, due to the scope limitations in relation to 湖南衡興環保科技開發有限公司 ("Hengxing"), being one of the subsidiaries of Shzenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group"), we were unable to satisfy ourselves as to the accuracy of the carrying value of net assets of Hengxing initially included in the calculation of goodwill arising from acquisition of Lisai Group on 7 November 2007, the carrying value of Hengxing at the date of disposal subsequently on 27 August 2009, and the carrying value of goodwill arising from acquisition of Lisai Group and the carrying value of goodwill as at the date of disposal of Hengxing, stated in the Group's consolidated financial statements. We qualified our opinion on the Group's consolidated financial statements for the six months ended 31 March 2010 in respect of this scope limitation accordingly.

Any adjustments that might have been found necessary in respect of the above would have had a consequential impact on the Group's results for the six months ended 31 March 2010 and the related disclosures made in respect of corresponding figures for the six months ended 31 March 2010 in the consolidated financial statements for the year ended 31 March 2011.

As detailed in note 40(a) to the consolidated financial statements, the Group disposed of its entire interest in one of its wholly-owned subsidiaries IIN Network Technology Limited and its subsidiaries including the Lisai Group ("IIN Network Technology Group") to an independent third party during the year ended 31 March 2011. The Group recorded a gain on disposal of subsidiaries of approximately HK$15,901,000 for the year ended 31 March 2011.

With the impact of the scope limitations in relation to Hengxing mentioned above, we were unable to satisfy ourselves as to the accuracy of the carrying value of goodwill as of the date of disposal of IIN Network Technology Group during the year ended 31 March 2011 and as to whether the amount of gain on disposal of subsidiaries has been accurately recorded in the consolidated income statement for the year ended 31 March 2011. Any adjustments to the figure would have a consequential effect on the profit of the Group and the related disclosures for the year ended 31 March 2011.

INTERNAL CONTROLS

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

During the year ended 31 March 2011, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control.

Independent Auditor's Report

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 104, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except as described in the basis for qualified opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

BASIS FOR QUALIFIED OPINION

Corresponding figures and Gain on disposal of subsidiaries

As previously explained in our report dated 29 June 2010 on the Group's consolidated financial statements for the six months ended 31 March 2010, due to the scope limitations in relation to 湖南衡興環保科技開發有限公司 ("Hengxing"), being one of the subsidiaries of Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group"), we were unable to satisfy ourselves as to the accuracy of the carrying value of net assets of Hengxing initially included in the calculation of goodwill arising from acquisition of Lisai Group on 7 November 2007, the carrying value of Hengxing at the date of disposal subsequently on 27 August 2009, and the carrying value of goodwill arising from acquisition of Lisai Group and the carrying value of goodwill as at the date of disposal of Hengxing, stated in the Group's consolidated financial statements. We qualified our opinion on the Group's consolidated financial statements for the six months ended 31 March 2010 in respect of this scope limitation accordingly.

Any adjustments that might have been found necessary in respect of the above would have had a consequential impact on the Group's results for the six months ended 31 March 2010 and the related disclosures made in respect of corresponding figures for the six months ended 31 March 2010 in the consolidated financial statements for the year ended 31 March 2011.

As detailed in note 40(a) to the consolidated financial statements, the Group disposed of its entire interest in one of its wholly-owned subsidiaries IIN Network Technology Limited and its subsidiaries including the Lisai Group ("IIN Network Technology Group") to an independent third party during the year ended 31 March 2011. The Group recorded a gain on disposal of subsidiaries of approximately HK$15,901,000 for the year ended 31 March 2011.

With the impact of the scope limitations in relation to Hengxing mentioned above, we were unable to satisfy ourselves as to the accuracy of the carrying value of goodwill as of the date of disposal of IIN Network Technology Group during the year ended 31 March 2011 and as to whether the amount of gain on disposal of subsidiaries has been accurately recorded in the consolidated income statement of the year ended 31 March 2011. Any adjustments to the figure would have a consequential effect on the profit of the Group and the related disclosures for the year ended 31 March 2011.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2011 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.

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

Hong Kong
29 June 2011

Consolidated Income Statement

For the year ended 31 March 2011

	Notes	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Continuing operations			
Turnover	7	**322,211**	162,323
Revenue	8	**322,211**	160,493
Cost of sales		**(197,026)**	(117,989)
Gross profit		**125,185**	42,504
Other income	9	**2,758**	16,752
Selling and distribution expenses		**(11,409)**	(5,741)
Administrative expenses		**(64,016)**	(32,470)
Other operating expenses		**(266)**	(1,149)
Allowance for doubtful debts		**(190)**	(9,298)
Gain on disposal of financial assets at fair value through profit or loss		–	266
Gain on disposal of available-for-sale investments		–	13,234
Reversal of allowance for doubtful debts		**3,955**	18,907
Profit from operations		**56,017**	43,005
Share of results of associates	22	**371**	214
Gain on cancellation of convertible notes		**5,049**	–
Gain on disposal of subsidiaries		**5,766**	8,464
Gain on deemed disposal of a subsidiary		**1,336**	–
Loss on deregistration of subsidiaries		**(128)**	–
Share-based payments		**(22,150)**	(907)
Finance costs	10	**(7,486)**	(11,829)
Profit before tax		**38,775**	38,947
Income tax expense	11	**(15,004)**	(12,618)
Profit for the year/period from continuing operations		**23,771**	26,329
Discontinued operation			
Profit/(loss) for the year/period from discontinued operation	12	**12,532**	(75,099)
Profit (loss) for the year/period	13	**36,303**	(48,770)
Profit/(loss) for the year/period attributable to:			
Owners of the Company			
– Profit for the year/period from continuing operations		**21,881**	28,695
– Profit/(loss) for the year/period from discontinued operations		**12,532**	(75,099)
Profit/(loss) for the year attributable to owners of the Company		**34,413**	(46,404)
Non-controlling interests			
– Profit/(loss) for the year/period from continuing operations		**1,890**	(2,366)
– Profit/(loss) for the year/period from discontinued operations		–	–
Profit/(loss) for the year/period attributable non-controlling interests		**1,890**	(2,366)
		36,303	(48,770)
Earnings (loss) per share	16		
From continuing and discontinued operations			
Basic (HK cents)		**1.88**	(2.75)
Diluted (HK cents)		**1.82**	(2.75)
From continuing operations			
Basic (HK cents)		**1.20**	1.70
Diluted (HK cents)		**1.16**	1.65

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Profit (loss) for the year/period	**36,303**	(48,770)
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations	**26,632**	(402)
Gain on fair value changes of available-for-sale investments	**–**	6,221
Reclassification adjustments for the cumulative loss transferred to profit or loss:		
– upon disposal of available-for-sale investments	**–**	(6,221)
– release of exchange translation reserve upon disposal of subsidiaries	**(6,218)**	(29)
– release of exchange translation reserve upon deemed disposal of a subsidiary	**(5,267)**	–
– release of exchange translation reserve upon deregistration of subsidiaries	**(341)**	–
Other comprehensive income (expense) for the year/period	**14,806**	(431)
Total comprehensive income (expense) for the year/period	**51,109**	(49,201)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**48,358**	(46,984)
Non-controlling interests	**2,751**	(2,217)
	51,109	(49,201)

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	31 March 2011 HK$'000	31 March 2010 HK$'000
Non-current assets			
Property, plant and equipment	17	**50,791**	29,808
Prepaid lease payments	18	**26,926**	–
Deposit paid for acquisition of land use rights	19	**59,455**	56,787
Goodwill	20	**444,551**	505,062
Intangible assets	21	**2,186**	3,280
Interests in associates	22	**69,363**	34,998
Available-for-sale investments	23	**476**	488
Other receivable	24	**7,486**	12,875
Deferred tax assets	25	**21,570**	22,802
		682,804	666,100
Current assets			
Inventories	26	**25,019**	71,092
Trade and retention receivables	27	**71,476**	68,519
Prepayments, deposits and other receivables	28	**56,451**	78,264
Prepaid lease payments	18	**553**	–
Amounts due from customers for contract work	29	**277,679**	160,424
Amounts due from non-controlling shareholders	30	**3,092**	4,570
Held-for-trading financial assets	31	**50**	56
Restricted bank balances	32	**1,278**	–
Short-term bank deposits	32	**2,378**	–
Cash held at non-bank financial institutions	32	**692**	692
Bank balances and cash	32	**143,528**	134,925
		582,196	518,542
Current liabilities			
Trade payables	33	**74,907**	84,113
Accrued liabilities, deposits received and other payables	34	**89,980**	69,812
Amounts due to customers for contract work	29	**9,675**	17,321
Amounts due to non-controlling shareholders	35	**10,270**	9,806
Amount due to an associate	36	**29,334**	36,257
Amount due to an investee company	35	**–**	1,317
Tax payable		**21,279**	13,912
		235,445	232,538
Net current assets		**346,751**	286,004
Total assets less current liabilities		**1,029,555**	952,104

Consolidated Statement of Financial Position

As at 31 March 2011

	Notes	31 March 2011 HK$'000	31 March 2010 HK$'000
Non-current liabilities			
Convertible notes	37	–	145,919
Deferred income	38	–	4,458
		–	150,377
Net assets		**1,029,555**	801,727
Capital and reserves			
Share capital	39	**644,368**	529,387
Reserves		**361,999**	227,103
Equity attributable to owners of the Company		**1,006,367**	756,490
Non-controlling interests		**23,188**	45,237
Total equity		**1,029,555**	801,727

The consolidated financial statements on pages 26 to 104 were approved and authorised for issue by the board of directors on 29 June 2011 and are signed on its behalf by:

Chan Wai Kay Katherine
Executive Director

Xu Shengheng
Executive Director

Consolidated Statement of Changes In Equity

For the year ended 31 March 2011

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note a)	*(Note b)*		*(Note c)*	*(Note d)*						
At 1 October 2009	526,735	516,123	307	148,120	–	–	27,136	7,293	(377,355)	848,359	49,651	898,010
Loss for the period	–	–	–	–	–	–	–	–	(46,404)	(46,404)	(2,366)	(48,770)
Other comprehensive expense for the period	–	–	–	–	–	–	–	(580)	–	(580)	149	(431)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(580)	(46,404)	(46,984)	(2,217)	(49,201)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,197)	(2,197)
Recognition of share-based payment expenses	–	–	–	–	–	–	907	–	–	907	–	907
Issue of shares upon exercise of share options *(Note 39 (c))*	2,652	1,744	–	–	–	–	(1,588)	–	–	2,808	–	2,808
Lapse of share options	–	–	–	–	–	–	(215)	–	215	–	–	–
Release upon cancellation of convertible notes	–	–	–	(60,210)	–	–	–	–	11,610	(48,600)	–	(48,600)
Appropriations	–	–	832	–	–	–	–	–	(832)	–	–	–
At 31 March 2010	529,387	517,867	1,139	87,910	–	–	26,240	6,713	(412,766)	756,490	45,237	801,727
Profit for the year	–	–	–	–	–	–	–	–	34,413	34,413	1,890	36,303
Other comprehensive income for the year	–	–	–	–	–	–	–	13,945	–	13,945	861	14,806
Total comprehensive income for the year	–	–	–	–	–	–	–	13,945	34,413	48,358	2,751	51,109
Acquisition of additional interests of a subsidiary	–	–	–	–	(1,694)	–	–	–	–	(1,694)	(22,079)	(23,773)
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,721)	(2,721)
Disposal of a subsidiary	–	–	(5)	–	–	–	–	–	5	–	–	–
Recognition of share-based payment expenses	–	–	–	–	–	–	22,150	–	–	22,150	–	22,150
Issue of shares upon exercise of share options *(Note 39 (c))*	14,882	9,788	–	–	–	–	(8,910)	–	–	15,760	–	15,760
Issue of share upon conversion of convertible notes *(Note 39 (d))*	26,871	95,384	–	(44,537)	–	–	–	–	–	77,718	–	77,718
Issue of shares upon share subscription *(Note 39 (e))*	73,228	1,502	–	–	–	–	–	–	–	74,730	–	74,730
Release upon cancellation of convertible notes *(Note 37 (b))*	–	–	–	(24,900)	–	–	–	–	5,520	(19,380)	–	(19,380)
Release upon waiver of convertible notes *(Note 37 (c))*	–	–	–	(18,473)	–	32,235	–	–	18,473	32,235	–	32,235
Appropriations	–	–	960	–	–	–	–	–	(960)	–	–	–
At 31 March 2011	644,368	624,541	2,094	–	(1,694)	32,235	39,480	20,658	(355,315)	1,006,367	23,188	1,029,555

Notes:

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

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

(c) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.

(d) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes as disclosed in Note 37(c).

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**38,775**	38,947
Profit (loss) before tax from discontinued operation	**12,532**	(75,077)
	51,307	(36,130)
Adjustments for:		
Allowance for doubtful debts	**190**	11,567
Amortisation of deferred income on government grants	**(486)**	(1,495)
Amortisation of intangible assets	**1,249**	596
Change in fair value of held-for-trading financial assets	**6**	11
Depreciation of property, plant and equipment	**3,109**	13,762
Release of prepaid lease payments	**184**	–
Finance costs	**7,486**	17,740
Gain on cancellation of convertible notes	**(5,049)**	(13,953)
Gain on disposal of available-for-sale investments	**–**	(13,234)
Gain on disposal of financial assets at fair value through profit or loss	**–**	(266)
Gain on disposal of subsidiaries	**(21,667)**	(12,626)
Gain on deemed disposal of a subsidiary	**(1,336)**	–
Interest income	**(446)**	(203)
Imputed interests on other receivable	**(961)**	–
Dividends income	**(1,608)**	–
Impairment loss on goodwill	**–**	56,658
Impairment loss on property, plant and equipment	**–**	23,178
Loss on disposal of property, plant and equipment	**–**	1,320
Written off of plant and equipment	**44**	–
Loss on deregistration of subsidiaries	**128**	–
Loss on disposal of an associate	**12**	–
Reversal of allowance for doubtful debts	**(3,955)**	(18,907)
Share-based payment expenses	**22,150**	907
Share of results of associates	**(371)**	(214)
Operating cash flows before movements in working capital	**49,986**	28,711
Decrease in inventories	**21,939**	1,806
Increase in trade and retention receivables	**(4,661)**	(9,760)
Decrease (increase) in prepayments, deposits and other receivables	**34,034**	(6,136)
(Increase) decrease in amounts due from customers for contract work	**(109,732)**	11,177
Proceeds from disposal of held-for-trading financial assets	**–**	1,819
Decrease in cash held at non-bank financial institutions	**–**	17,911
Increase in trade payables	**1,683**	6,451
Increase in accrued liabilities, deposits received and other payables	**22,897**	14,326
Decrease in amounts due to customers for contract work	**(7,646)**	(15,401)

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Notes	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Cash generated from operations		**8,500**	50,904
Tax reserve certificate purchased		**(899)**	–
Income tax paid in the PRC		**(1,102)**	(2,173)
NET CASH FROM OPERATING ACTIVITIES		**6,499**	48,731
INVESTING ACTIVITIES			
Increase in short-term bank deposits		**(2,378)**	–
Increase in restricted bank balances		**(1,278)**	–
Purchase of property, plant and equipment		**(34,322)**	(51,233)
Net cash inflow (outflow) from disposal of subsidiaries	*40*	**13,885**	(1,736)
Repayment from non-controlling shareholders		**1,692**	4
Proceeds from disposal of property, plant and equipment		**–**	39
Proceeds from disposal of an associate		**886**	–
Proceeds from disposal of available-for-sale investments		**35**	22,715
Payment for prepaid lease payments		**(27,663)**	–
Cash paid for acquisition of additional interests in a subsidiary		**(23,773)**	–
Net cash outflow from deregistration of subsidiaries	*42*	**(3,402)**	–
Net cash outflow from deemed disposal of a subsidiary	*41*	**(95)**	–
Dividends received from available-for-sales investment		**1,608**	–
Interest received		**446**	203
NET CASH USED IN INVESTING ACTIVITIES		**(74,359)**	(30,008)
FINANCING ACTIVITIES			
New other loans raised		**–**	18,629
Government grants received		**–**	12,807
Proceeds from exercise of share options		**15,760**	2,808
(Repayment to)/advance from an investee company		**(1,317)**	1,317
Advance from/(repayment to) non-controlling shareholders		**464**	(2,260)
Proceeds from issue of subscription shares		**74,730**	–
Interest paid		**–**	(3,611)
Repayment to an associate		**(18,880)**	(26,645)
NET CASH FROM FINANCING ACTIVITIES		**70,757**	3,045
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,897**	21,768
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		**134,925**	113,028
Effect of foreign exchange rate changes		**5,706**	129
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash		**143,528**	134,925

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries and associates are set out in Notes 50 and 22 respectively.

During the six months ended 31 March 2010, the reporting period end date of the Group was changed from 30 September to 31 March to align the financial year end date of the Company with the fiscal year end date of the Inland Revenue Department of Hong Kong with the benefit of facilitating timely and efficient financial reporting. Accordingly, the consolidated financial statements for the current period cover the twelve-month period from 1 April 2010 to 31 March 2011. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a six-month period from 1 October 2009 to 31 March 2010 and therefore may not be comparable with amounts shown for the current period.

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

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HK – Int 5	Presentation of Financial Statements –Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the financial statements.

The application of the other new and revised standards, amendments and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

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

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[6]
HKFRS 11	Joint Arrangements[6]
HKFRS 12	Disclosure of Interests in Other Entities[6]
HKFRS 13	Fair Value Measurement[6]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (2011)	Separate Financial Statements[6]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2011.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group does enter into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for leasehold building and certain financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted based on the share of net assets to the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to accumulated losses). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The Group's policy for goodwill arising on the acquisition of subsidiaries is described below.

Investments in subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) within its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

Revenue recognition

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

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

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

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

Service income is recognised when services are provided.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

Depreciation on revalued building is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to the accumulated losses.

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

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

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

Construction contracts

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

Leasing

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

The Group as lessee

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchanges differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

From 1 April 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange difference accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

Borrowing costs

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

Retirement benefit costs

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognsied at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Research and development expenditure

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

Inventories

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- On initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-making; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

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

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

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probably that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Convertible notes

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

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

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

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement after 7 November 2002 and vested on or after 1 January 2005

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

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

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

Share options granted by the Company to employees of the Group in an equity-settled share-based payment arrangement on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

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

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

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

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Income taxes

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

Deferred tax asset has been recognised in respect of allowance for doubtful debts of HK$86,273,000 as at 31 March 2011 (31 March 2010: HK$91,209,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the consolidated income statement for the period in which it takes place.

Construction contracts

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Depreciation of property, plant and equipment

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

Estimated impairment of property, plant and equipment and prepaid lease payments

The management of the Group determines whether the property, plant and equipment and prepaid lease payments are impaired, at least on an annual basis. The impairment loss for property, plant and equipment and prepaid lease payments are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment and prepaid lease payments have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 March 2011, the carrying amount of property, plant and equipment, and prepaid lease payments is approximately HK$50,791,000 (net of accumulated impairment loss of nil) and HK$27,479,000 respectively (31 March 2010: carrying amount of approximately HK$29,808,000 (net of accumulated impairment loss of approximately HK$23,178,000) and nil respectively).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2011, the carrying amount of goodwill is approximately HK$444,551,000, net of accumulated impairment loss of nil (31 March 2010: carrying amount of approximately HK$505,062,000, net of accumulated impairment loss of approximately HK$255,824,000)

Estimated allowance for inventories and write-down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 March 2011, the carrying amounts of inventories was approximately HK$25,019,000 (31 March 2010: HK$71,092,000).

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

The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate have been changed. No impairment loss was recognised for the year ended 31 March 2011 and six months ended 31 March 2010.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. As at 31 March 2011, the carrying amount of trade receivables is HK$71,476,000 (net of allowance for doubtful debts of approximately HK$8,568,000) (31 March 2010: carrying amount of approximately HK$68,519,000, net of allowance for doubtful debts of approximately HK$13,504,000).

Share-based payments

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Group's share-based payment reserve. In assessing the fair value of the share options, the generally accepted option pricing models were used to calculate the fair value of the share options. The option pricing models require the input of subjective assumptions, including the volatility of its own ordinary shares and the expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

5. CAPITAL RISK MANAGEMENT

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

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

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

The Group also monitors its capital on the basis of the gearing ratio of total borrowings over equity. This ratio is calculated as total borrowings over equity.

5. CAPITAL RISK MANAGEMENT *(Continued)*

The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The gearing ratio at the end of the reporting period is as follows:

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Total borrowings *(note i)*	**–**	145,919
Equity *(note ii)*	**1,006,367**	756,490
Gearing ratio	**N/A**	19%

i) Total borrowings comprises the convertible notes as detailed in Notes 37.

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

6. FINANCIAL INSTRUMENTS

6(a) Categories of financial instruments

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Financial assets		
FVPTL – held for trading	**50**	56
Loans and receivables (including cash and cash equivalents)	**274,870**	293,952
Available-for-sale investments	**476**	488
Financial liabilities		
Amortised cost	**146,552**	302,232

6. FINANCIAL INSTRUMENTS *(Continued)*

6(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading financial assets, trade and retention receivables, deposits and other receivables, amounts due from non-controlling shareholders, restricted bank balances, short-term bank deposits, cash held at non-bank financial institutions, bank balances and cash, trade payables, accrued liabilities and other payables, amounts due to non-controlling shareholders, amount due to an associate, amount due to an investee company and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

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

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	Assets		Liabilities	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**1,073**	1,325	–	–
Bank balances and cash	**62,336**	53,913	–	–
Accrued liabilities and other payables	–	–	**1,350**	147,084
Total exposure	**63,409**	55,238	**1,350**	147,084

6. FINANCIAL INSTRUMENTS

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (six months ended 31 March 2010: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (six months ended 31 March 2010: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (six months ended 31 March 2010: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss after tax or increase in profit after tax for the year/period where RMB strengthen 5% (six months ended 31 March 2010: 5%) against the relevant currency. For a 5% (six months ended 31 March 2010: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss after tax and the balances below would be negative.

	31 March 2011 *HK$'000*	31 March 2010 *HK$'000*
HK$	**(2,327)**	3,444

(ii) Interest rate risk

The Group's exposures to interest rate risk is through the impact of rate changes on interest-bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short-term in nature. There were no interest-bearing financial liabilities as at 31 March 2011 and 2010. The group has not used any derivative contracts to hedge its exposure to interest rate risk. The management monitors the movement in market interest rates and reviews such impact on the Group on a continuous basis to ensure that any future variations in interest rate will not have a significant adverse impact on the results of the Group.

Since the Group's exposure to interest rate risk is minimal, no sensitivity analysis has been prepared.

(iii) Other price risk

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

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

If the prices of the respective equity instruments had been 5% (six months ended 2010: 5%) higher/lower, profit after tax for the year ended 31 March 2011 would increase/decrease by approximately HK$2,000 (six months ended 31 March 2010: loss after tax would decrease/increase by approximately HK$2,000) as a result of the changes in fair value of held-for-trading investments.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 March 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (31 March 2010: 100%) of the total trade receivables as at 31 March 2011.

Liquidity risk

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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

Liquidity tables

	Within 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2011					
Non-derivative financial liabilities					
Trade payables	**74,907**	–	–	**74,907**	**74,907**
Accrued liabilities and other payables	**32,041**	–	–	**32,041**	**32,041**
Amounts due to non-controlling shareholders	**10,270**	–	–	**10,270**	**10,270**
Amount due to an associate	**29,334**	–	–	**29,334**	**29,334**
	146,552	–	–	**146,552**	**146,552**

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

6. FINANCIAL INSTRUMENTS *(Continued)*

6(c) Fair value

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

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

- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- The non-current portion of other receivable in respect of the deferred consideration is recorded at its fair value.

Except for this, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 March 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Held-for-trading financial assets	**50**	**–**	**–**	**50**

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

There were no transfers between Level 1 and 2 in the current and prior years.

7. TURNOVER

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Sales and installment of shallow ground energy utilisation system	**317,843**	154,339
Maintenance services for shallow ground energy utilisation system	**2,760**	6,154
Gross proceeds from trading of securities	–	1,830
Dividend income	**1,608**	–
	322,211	162,323

8. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker, being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment are as follows:

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

(b) Securities investment and trading segment – trading of investment securities; and

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

On 13 September 2010, the Group completed the disposal of its wholly-owned subsidiary, IIN Network Technology Limited and its subsidiaries including the Lisai Group as defined in note 37 ("IIN Network Technology Group") which were engaged in synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waste water and utilisation of new energy sources. The segment information reported on the next pages does not include any amounts for this discounted operations, which are described in more detail in note 12.

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy	Securities investment and trading	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**320,603**	**1,608**	**–**	**322,211**
Segment profit (loss)	**85,064**	**(5,805)**	**(702)**	**78,557**
Share of results of associates				**371**
Unallocated other income				**6,319**
Unallocated expenses				**(38,986)**
Finance costs				**(7,486)**
Profit before tax (continuing operations)				**38,775**

For the six months ended 31 March 2010 (Restated)

Continuing operations

	Shallow ground energy	Securities investment and trading	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	160,493	–	–	160,493
Segment profit (loss)	57,952	(5,601)	(529)	51,822
Share of results of associates				214
Unallocated other income				7,907
Unallocated expenses				(9,167)
Finance costs				(11,829)
Profit before tax (continuing operations)				38,947

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit or loss represents profit earned by or loss from each segment without allocation of share of results of associates interest income, certain other income, gain on disposal of subsidiaries for the year ended 31 March 2011, central administration costs, share-based payments and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

Segment assets

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Continuing operations:		
Shallow ground energy	**1,005,345**	859,770
Securities investment and trading	**9,064**	21,824
Others	**1,204**	1,382
Total segment assets	**1,015,613**	882,976
Assets relating to discontinued operation	**–**	23,468
Unallocated corporate assets	**249,387**	278,198
Consolidated total assets	**1,265,000**	1,184,642

Segment liabilities

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Continuing operations:		
Shallow ground energy	**170,663**	180,279
Securities investment and trading	**1,557**	24,332
Others	**2,342**	570
Total segment liabilities	**174,562**	205,181
Liabilities relating to discontinued operation	**–**	10,336
Unallocated corporate liabilities	**60,883**	167,398
Consolidated total liabilities	**235,445**	382,915

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

- all assets are allocated to reportable segments other than interests in associates, deferred tax assets, amounts due from non-controlling shareholders, restricted bank balance, short-term bank deposits, cash held at non-bank financial institutions, bank balances and cash and unallocated corporate assets; and

- all liabilities are allocated to reportable segments other than amounts due to non-controlling shareholders, amount due to an associate, amount due to an investee company, tax payables, convertible notes and unallocated corporate liabilities.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy HK$'000	Securities investment and trading HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets *(Note)*	60,529	–	–	60,529
Depreciation and amortisation	3,756	–	325	4,081
Allowance for doubtful debts	190	–	–	190
Reversal of allowance for doubtful debts	(3,955)	–	–	(3,955)
Gain on cancellation of convertible notes	(5,049)	–	–	(5,049)
Gain on deemed disposal of a subsidiary	(1,336)	–	–	(1,336)
Loss on disposal of an associate	12	–	–	12
Loss on written off plat and equipment	44	–	–	44
Loss on deregistration of subsidiaries	128	–	–	128
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	69,363	–	–	69,363
Share of results of associates	(371)	–	–	(371)
Interest income	(325)	–	(114)	(439)
Interest expenses	7,486	–	–	7,486
Income tax expense	15,004	–	–	15,004

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the six months ended 31 March 2010 (Restated)

Continuing operations

	Shallow ground energy	Securities investment and trading	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets *(Note)*	50,967	–	–	50,967
Depreciation and amortisation	13,298	–	440	13,738
Allowance for doubtful debts	9,298	–	–	9,298
Reversal of allowance for doubtful debts	(18,907)	–	–	(18,907)
Gain on disposal of financial assets at fair value through profit or loss	–	(266)	–	(266)
Gain on disposal of available-for-sale investments	–	(13,234)	–	(13,234)
Gain on disposal of subsidiaries	(8,464)	–	–	(8,464)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	34,998	–	–	34,998
Share of results of associates	(214)	–	–	(214)
Interest income	(143)	–	–	(143)
Interest expenses	11,829	–	–	11,829
Income tax expense	12,618	–	–	12,618

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

8. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are mainly located in the PRC. All of the Group's revenue from external customers based on the location at which the services were provided or the goods were delivered and non-current assets are in the PRC, except for the securities investment and trading segment which are located in Hong Kong.

Information about major customers

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the year ended 31 March 2011 and the six months ended 31 March 2010.

9. OTHER INCOME

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Continuing operations		
Bank interest income	**439**	143
Government grants *(Note a)*	**1,109**	4,163
Amortisation of deferred income on government grants *(Note 38)*	**–**	843
Sale of raw materials	**–**	5,824
Compensation received *(Note b)*	**–**	5,446
Imputed interest income on other receivable	**961**	–
Others	**249**	333
	2,758	16,752

Notes:

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

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

10. FINANCE COSTS

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	**–**	798
Imputed interest expense on convertible notes	**7,486**	8,218
Interest paid to an associate	**–**	2,813
	7,486	11,829

11. INCOME TAX EXPENSE

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**14,063**	9,318
Under provision in prior years:		
Hong Kong Profits Tax	**–**	899
Deferred tax *(note 25)*	**941**	2,401
	15,004	12,618

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year ended 31 March 2011 and six months ended 31 March 2010.

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

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

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

Since March 2008, Inland Revenue Department ("IRD") has initiated tax enquiries and issued protective profits tax demand note relating to the years of assessment 2000/2001 to 2005/2006 against a subsidiary in the Group. The Group had lodged objections with the IRD and the IRD agreed to hold over the tax claimed completely subject to the said subsidiary in question purchasing tax reserve certificates ("TRCs"). TRCs of an aggregate amount of approximately HK$899,000 were purchased by the Group up to the end of the reporting period and included in other receivables in the consolidated statement of financial position as at 31 March 2011.

The Group has provided tax liabilities in respect of the mentioned years of assessment. The directors of the Company considered that there was no material under-provision of tax liabilities as at 31 March 2011.

11. INCOME TAX EXPENSE *(Continued)*

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Profit before tax (from continuing operations)	**38,775**	38,947
Tax at the domestic income tax rate	**13,109**	15,468
Under-provision in prior years	**–**	899
Tax effect of share of results of associates	**(15)**	(54)
Tax effect of expenses not deductible for tax purpose	**6,002**	1,525
Tax effect of income not taxable for tax purpose	**(1,447)**	(720)
Utilisation of tax losses previously not recognised	**–**	(3,685)
Income tax on concessionary rate	**(2,645)**	(815)
Tax expense for the year/period (relating to continuing operations)	**15,004**	12,618

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

12. DISCONTINUED OPERATION

On 27 August 2010, the Group entered into a sale agreement with an independent third party to dispose of its wholly-owned subsidiary, IIN Network Technology Group, which was engaged in the environmental protection segment. The disposal was effected in order to Streamline the business of the Group. The disposal was completed on 13 September 2010, on which date control of IIN Network Technology Group passed to the acquirer.

The profit for the year ended 31 March 2011 from the discontinued operation is analysed as follows:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Loss of environmental protection operation for the year/period	**(3,369)**	(26,483)
Gain on cancellation of convertible notes	**–**	13,953
Impairment loss on goodwill	**–**	(56,658)
Finance cost	**–**	(5,911)
Gain on disposal of environmental protection operation *(note 40(a))*	**15,901**	–
	12,532	(75,099)

12. DISCONTINUED OPERATION *(Continued)*

The results of the environmental protection operation for the period from 1 April 2010 to 13 September 2010, which have been included in the consolidated income statement, were as follows:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Revenue	**14,016**	18,505
Cost of sales	**(13,424)**	(15,960)
Gross profit	**592**	2,545
Other income	**493**	2,374
Administrative expenses	**(4,454)**	(10,095)
Allowance for doubtful debts	**–**	(2,269)
Gain on disposal of a subsidiary	**–**	4,162
Impairment loss on property, plant and equipment	**–**	(23,178)
Loss before tax	**(3,369)**	(26,461)
Income tax expense	**–**	(22)
Loss for the year/period	**(3,369)**	(26,483)

Loss for the year/period from discontinued operation including the following:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Bank interest income	**(7)**	(60)
Amortisation of deferred income on government grants	**(486)**	(652)
Cost of inventories sold	**13,424**	15,960
Depreciation of property, plant and equipment	**461**	620
Staff costs	**800**	1,713
Research costs (included in administrative expenses)	**1,886**	–
Loss on disposal of property, plant and equipment	**–**	1,320
Lease payments under operating lease in respect of land and building	**410**	527

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

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

Net cash generated from (used in) operating activities	**1,049**	(34,567)
Net cash (used in) generated from investing activities	**(844)**	24,021
Net cash from financing activities	**–**	–
Net cash inflow (outflow)	**205**	(10,546)

The carrying amounts of the assets and liabilities of IIN Network Technology Group as the date of disposal are disclosed in note 40(a).

13. PROFIT (LOSS) FOR THE YEAR/PERIOD

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Profit (loss) for the year/period has been arrived at after charging:		
Continuing operations		
Staff costs, including directors' emoluments *(Note 14)*		
– Wages and salaries	26,745	13,741
– Retirement benefits scheme contributions	3,181	880
– Share-based payments	22,150	907
	52,076	15,528
Cost of inventories sold	181,998	115,464
Exchange losses	–	1,041
Change in fair value of held-for-trading financial assets	6	11
Depreciation of property, plant and equipment	2,648	13,142
Amortisation of intangible assets	1,249	596
Release of prepaid lease payments	184	–
Auditor's remuneration	2,384	1,150
Lease payments under operating leases in respect of land and buildings	7,151	3,304
Written off of property, plant and equipment	44	–
Loss on disposal of an associate	12	–
Research costs (included in administrative expenses)*	5,437	822

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

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

	For the year ended 31 March 2011				
	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Share-based payments HK$'000	Total HK$'000
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,908	12	3,194	5,114
Mr. Xu Shengheng	–	1,908	12	2,180	4,100
Mr. Wu Shu Min	–	1,920	–	2,180	4,100
Mr. Soo Kim Fui, Jeffrey	–	600	–	1,127	1,727
Non-executive directors:					
Mr. Fu Hui Zhong	240	–	–	752	992
Independent non-executive directors:					
Ms. Chan Man Kuen, Laura	120	–	–	282	402
Mr. Chow Wan Hoi, Paul	120	–	–	282	402
Mr. Jia Wenzeng	120	–	–	282	402
Total	600	6,336	24	10,279	17,239

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

(a) Directors *(Continued)*

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

No director waived or agreed to waive any emoluments paid by the Company dung the year ended 31 March 2011 and Six months ended 31 March 2010.

During the year ended 31 March 2011 and six months ended 31 March 2010, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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

(b) Employees

Of the five individuals with the highest emoluments in the Group, four (six months ended 31 March 2010: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining one (six months ended 31 March 2010: one) individual were as follows:

	Year ended 31 March 2011 ***HK$'000***	Six months ended 31 March 2010 *HK$'000*
Salaries and other benefits	**572**	264
Retirement benefits schemes contributions	**12**	6
Share-based payment expenses	**846**	–
	1,430	270

The emolument of the above employee was ranged from HK$1,000,001 to HK$1,500,000 during the year ended 31 March 2011 (six months ended 31 March 2010: less than HK$1,000,000).

During the year ended 31 March 2011 and six months ended 31 March 2010, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2011, nor has any dividend been proposed since the end of the reporting period (six months ended 31 March 2010: Nil).

16. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operation

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Earnings (loss)		
Profit (loss) for the year/period attributable to owners of the Company and for the purpose of basic and diluted earnings (loss) per share	**34,413**	(46,404)

	Year ended 31 March 2011 *'000*	Six months ended 31 March 2010 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/loss per share	**1,828,837**	1,688,792
Effect of dilutive potential ordinary shares:		
Share options	**60,401**	48,682
Weighted average number of ordinary shares for the purpose of diluted earnings/loss per share	**1,889,238**	1,737,474

For the six months ended 31 March 2010, the diluted loss per share is the same as the basic loss per share as the exercise of the Company's share option and conversion of the Company's convertible notes would result in a decrease in basic loss per share.

16. EARNINGS/(LOSS) PER SHARE *(Continued)*

From continuing operations

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

	Year ended 31 March 2011	Six months ended 31 March 2010
	HK$'000	*HK$'000*
Profit (loss) for the year/period attributable to owners of the Company and for the purpose of basic earnings (loss) per share	**34,413**	(46,404)
Less: profit (loss) for the year/period from discontinued operation	**12,532**	(75,099)
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**21,881**	28,695

	Year ended 31 March 2011	Six months ended 31 March 2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,828,837**	1,688,792
Effect of dilutive potential ordinary shares:		
Share options	**60,401**	48,682
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,889,238**	1,737,474

For the six months ended 31 March 2010, the computation of diluted earnings per share from continuing operations does not assume the conversion of the Company's convertible notes since their exercise would result in an increase in earnings per share.

From discontinued operation

For the year ended 31 March 2011, basic earnings per share for the discontinued operation is HK$0.68 cents per share (six months ended 31 March 2010: basic loss per share of HK$4.45). The diluted earnings per share for the discontinued operations is HK$0.66 cents per share for the year ended 31 March 2011. For the six months ended 31 March 2010, the diluted loss per share is the Same as the basic loss per share as the exercise of the Company's share option and the conversion of the Company's convertible notes would result in a decrease in basic loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and Building	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION								
At 1 October 2009	–	5,332	28,989	3,839	6,166	13,541	48,573	106,440
Exchange adjustments	–	7	138	5	23	30	54	257
Additions	–	4	12,931	394	5,498	2,828	29,578	51,233
Disposals	–	–	(1,359)	(1,366)	–	(1,089)	–	(3,814)
Disposal of subsidiaries	–	–	(79,730)	(170)	(57)	(721)	–	(80,678)
Transfer	–	–	61,921	–	102	–	(62,023)	–
At 31 March 2010	–	5,343	22,890	2,702	11,732	14,589	16,182	73,438
At 1 April 2010	–	5,343	22,890	2,702	11,732	14,589	16,182	73,438
Exchange adjustments	–	171	1,080	111	532	602	760	3,256
Additions	7,502	303	6,603	80	318	949	18,567	34,322
Deemed disposal of a subsidiary	–	–	(6,557)	(224)	(340)	–	(53)	(7,174)
Disposal of subsidiaries	–	(4,481)	(13,523)	(200)	(8,015)	(10,413)	(4,963)	(41,595)
Deregistration of a subsidiary	–	–	–	–	(26)	–	–	(26)
Written off	–	–	–	(213)	(165)	(200)	–	(578)
Transfer	–	–	1,040	–	–	–	(1,040)	–
At 31 March 2011	7,502	1,336	11,533	2,256	4,036	5,527	29,453	61,643
Comprising								
At cost	–	1,336	11,533	2,256	4,036	5,527	29,453	54,141
At valuation 2011	7,502	–	–	–	–	–	–	7,502
	7,502	1,336	11,533	2,256	4,036	5,527	29,453	61,643

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

	Leasehold Land and Building 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	Construction in progress HK$'000	Total HK$'000
DEPRECIATION AND IMPAIRMENT								
At 1 October 2009	–	1,317	3,768	3,524	2,947	4,360	–	15,916
Exchange adjustments	–	1	15	4	10	14	–	44
Charge for the period	–	276	7,555	164	2,255	3,512	–	13,762
Impairment loss recognised in the period	–	3,274	7,838	–	5,139	1,778	5,149	23,178
Eliminated on disposals	–	–	–	(1,366)	–	(1,089)	–	(2,455)
Eliminated on disposal of subsidiaries	–	–	(6,349)	(112)	(43)	(311)	–	(6,815)
At 31 March 2010	–	4,868	12,827	2,214	10,308	8,264	5,149	43,630
Exchange adjustments	–	171	607	94	471	371	243	1,957
Charge for the year	–	558	768	202	573	1,008	–	3,109
Eliminated on deemed disposal of a subsidiary	–	–	(349)	(129)	(200)	–	(1)	(679)
Eliminated on disposal of subsidiaries	–	(4,470)	(12,285)	(200)	(7,901)	(6,367)	(5,391)	(36,614)
Eliminated on deregistration of a subsidiary	–	–	–	–	(17)	–	–	(17)
Written off	–	–	–	(206)	(157)	(171)	–	(534)
At 31 March 2011	–	1,127	1,568	1,975	3,077	3,105	–	10,852
CARRYING VALUES								
At 31 March 2011	7,502	209	9,965	281	959	2,422	29,453	50,791
At 31 March 2010	–	475	10,063	488	1,424	6,325	11,033	29,808

The Group's leasehold land and buildings are located in the PRC and held under medium-term leases.

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

Leasehold land and building	5 years or over the lease terms, whichever is shorter
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

During the six months ended 31 March 2010, the directors conducted a review of the Group's property, plant and equipment and determined that a number of those assets were impaired, due to the amount of recoverable amount is less than its carrying amount. Accordingly, impairment losses of approximately HK$23,178,000 has been recognised in respect of property, plant and equipment. However, no impairment loss was recognised for the year ended 31 March 2011.

The leasehold land and building was valued on 31 March 2011 by the directors of the Company on an open market value basis and the revalued amount approximate its carrying value as at 31 March 2011.

18. PREPAID LEASE PAYMENTS

	31 March 2011
	HK$'000
Analysed for reporting purposes as:	
Current asset	553
Non-current asset	26,926
	27,479

	31 March 2011
	HK$'000
The Group's prepaid lease payments comprise:	
Medium-term lease outside Hong Kong	27,479

19. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

The balance represents RMB50,000,000 as at 31 March 2011 and 2010 respectively (equivalent to approximately HK$59,455,000 and approximately HK$56,787,000 as at 31 March 2011 and 2010 respectively) paid to an independent third party as a deposit for the acquisition of land use rights in the PRC. The Group is in the process of obtaining the land use rights certificate from the relevant government authority. Details of the capital commitment are disclosed in note 45.

20. GOODWILL

	HK$'000
COST	
At 1 October 2009, 31 March 2010 and 31 March 2011	760,886
Adjustments to measurement of consideration for acquisition *(note)*	(57,783)
Eliminated on deemed disposal of a subsidiary *(Note 41)*	(2,728)
Eliminated on disposal of a subsidiary *(Note 40(a))*	(255,824)
At 31 March 2011	444,551
IMPAIRMENT	
At 1 October 2009	199,166
Impairment loss recognised	56,658
At 31 March 2010	255,824
Release on disposal of a subsidiary *(Note 40(a))*	(255,824)
At 31 March 2011	–
CARRYING VALUES	
At 31 March 2011	444,551
At 31 March 2010	505,062

20. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill with indefinite useful lives has been allocated to an individual cash generating unit, being the subsidiaries operating in shallow ground energy segment.

The Group conducted impairment review on goodwill attributable to the shallow ground energy segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the shallow ground energy segment has been determined based on a value-in-use calculation. That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a 5-year period, with discount rate of 13.55% (31 March 2010: 13%) per annum. The cash flows beyond the one year period were extrapolated using a steady growth rate of 10% (six months ended 31 March 2010: 8.5%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of Shallow ground energy Segment to exceed its aggregate recoverable amount.

During the six months ended 31 March 2010, the Group performed impairment review for the goodwill allocated to the environmental protection segment and an impairment loss of approximately HK$56,658,000 was recognised. The environmental protection segment was discontinued subsequently through the disposal of a wholly-owned subsidiary on 13 September 2010.

Note:

Pursuant to the sales and purchase agreement in relation to the acquisition of Beijing Enterprises Ever Source Limited and its subsidiaries (the "HYY Group") dated 21 December 2007 ("HYY Agreement"), in the event that the net profits after tax of HYY Group attributable to the Group is less than RMB200,000,000 ("Guaranteed Profit") for the period of 24 months commencing from 1 April 2008 to 31 March 2010 ("Guaranteed Period"), Ever Sincere Investment Limited (the "Vendor") shall (a) pay to II Networks International Limited ("II Networks"), a wholly-owned subsidiary of the Group, an amount of cash (in Hong Kong dollars) equivalent to such shortfall; or (b) at the option of the Vendor transfer to II Networks for no consideration the HYY Convertible Notes (Note 37(b)) for such principal amount equivalent to such shortfall.

At the end of the Guaranteed Period, HYY Group's audited net profits for the Guaranteed Period is less than the Guaranteed Profit. The board of directors of the Company therefore considered it appropriate that an amount of HK$57,783,000 was deducted from the goodwill arising in the acquisition of HYY Group.

21. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 October 2010	5,653
Exchange adjustments	12
At 31 March 2010	5,665
Exchange adjustments	267
At 31 March 2011	5,932
AMORTISATION	
At 1 October 2010	1,785
Exchange adjustments	4
Charge for the period	596
At 31 March 2010	2,385
Exchange adjustments	112
Charge for the year	1,249
At 31 March 2011	3,746
CARRYING VALUES	
At 31 March 2011	2,186
At 31 March 2010	3,280

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

22. INTERESTS IN ASSOCIATES

	31 March 2011 *HK$'000*	31 March 2010 *HK$'000*
Cost of unlisted investments in associates	**68,982**	34,976
Share of post-acquisition profits and losses and other comprehensive income	**381**	22
	69,363	34,998

As at 31 March 2011 and 2010, the Group had interests in the following associates:

Name of entity	Form of entity	Place of incorporation and operation	Class of shares held	Proportion of nominal value of equity interest held by the Group 31 March 2011	 31 March 2010	Principal activity
Ever Source Investment Management Company Limited	Limited liability company	PRC	Registered share capital of RMB79,000,000	**37.97%**	37.97%	Provision of air-conditioning service
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd) ("BEHP")	Limited liability company	PRC	Registered share capital of US$300,000	**49%**	N/A	Production and sales of machineries geothermal energy systems
北京愛華冷氣技術有限公司 ("北京愛華")	Limited liability company	PRC	Registered share capital of RMB1,426,100	**N/A**	48%	Development of cooling technology

During the year ended 31 March 2011, there were capital enlargement and injection of capital of BEHP, a wholly-owned subsidiary of the Group. As a result of the capital enlargement, the Group's interest in BEHP was reduced from 100% to 49% and BEHP became an associate of the Group since then.

During the year ended 31 March 2011, the Group disposed of its 48% equity interests in 北京愛華 to an independent third party at consideration of RMB780,000 and loss on disposal of approximately HK$12,000 was recorded.

Included in the cost of investments in associates is goodwill of approximately HK$482,000 (31 March 2010: HK$482,000) arising on acquisition of an associate during the year ended 30 September 2009.

22. INTERESTS IN ASSOCIATES *(Continued)*

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Current assets	**125,555**	56,194
Non-current assets	**49,899**	50,423
Total assets	**175,454**	106,617
Current liabilities and total liabilities	**22,574**	15,663
Net assets	**152,880**	90,954
Group's share of net assets of associates	**68,881**	34,516

	Year ended 31 March 2011	Six months ended 31 March 2010
	HK$'000	*HK$'000*
Revenue	**39,705**	6,496
Profit for the year/period	**1,221**	549
Other comprehensive income	**–**	–
Group's share of profits and other comprehensive income of associates for the year/period	**371**	214

23. AVAILABLE-FOR-SALE INVESTMENTS

	31 March 2011	31 March 2010
	HK$'000	HK$'000
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note)*	476	488

Note:

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

24. OTHER RECEIVABLE

The amount of HK$7,486,000 (31 March 2010: HK$12,875,000) represented the deferred consideration which arose from the disposal of a 54% owned subsidiary during the six months ended 31 March 2010 as disclosed in Note 40(c), which will be fully repaid by 31 December 2013 in installments. The consideration due within one year of HK$13,294,000 as at 31 March 2011 (31 March 2010: HK$6,036,000) has been included in other receivables under current assets. The Group did not hold any collateral over these balances.

25. DEFERRED TAX ASSETS

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

	Allowance for doubtful debts *HK$'000*
At 1 October 2009	25,190
Exchange adjustments	13
Charged to consolidated income statement for the period	(2,401)
At 31 March 2010	22,802
Exchange adjustments	139
Release on deemed disposal of a subsidiary *(Note 41)*	(282)
Release on disposal of a subsidiary *(Note 40(a))*	(148)
Charged to consolidated income statement for the year	(941)
At 31 March 2011	21,570

As at 31 March 2010, the Group had deductible temporary differences of approximately HK$23,178,000 (31 March 2011: nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximated RMB159,936,000 (31 March 2010: RMB86,683,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. INVENTORIES

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Raw materials	**17,180**	53,143
Work-in-progress	**7,834**	8,809
Finished goods	**5**	9,140
	25,019	71,092

27. TRADE AND RETENTION RECEIVABLES

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Trade and retention receivables	**80,044**	82,023
Less: allowance for doubtful debts	**(8,568)**	(13,504)
	71,476	68,519

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Within 90 days	**39,791**	24,218
91 to 180 days	**3,923**	11,452
181 to 365 days	**20,534**	32,797
Over 365 days	**7,228**	52
	71,476	68,519

27. TRADE AND RETENTION RECEIVABLES *(Continued)*

Included in the Group's trade and retention receivable balances were debtors with aggregate carrying amount of approximately HK$7,228,000 (31 March 2010: HK$8,426,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances.

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
181 to 365 days	–	8,374
Over 365 days	**7,228**	52
	7,228	8,426

The Group's neither past due nor impaired trade and retention receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default. The Group did not hold any collateral over there balances.

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Balance at beginning of the year/period	**13,504**	22,942
Exchange adjustments	**555**	171
Impairment losses recognised on receivables	**190**	9,298
Impairment losses reversed	**(3,955)**	(18,907)
Disposal of a subsidiary	**(593)**	–
Deemed disposal of a subsidiary	**(1,133)**	–
Balance at end of the year/period	**8,568**	13,504

Included in the allowance for trade and retention receivables were individually impaired trade and retention receivables with an aggregate balance of approximately HK$8,568,000 (31 March 2010: HK$13,504,000) which have been placed in severe financial difficulties. The Group did not hold any collateral over these balances.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 March 2011	31 March 2010
	HK$'000	HK$'000
Prepayments	11,511	5,893
Deposits	21,167	38,224
Other receivables	26,042	36,416
Less: allowance for doubtful debts	(2,269)	(2,269)
	56,451	78,264

The Group did not hold any collateral over these balances.

Included in the other receivables, approximately HK$20,294,000 were consideration receivable from disposal of subsidiaries (Note 40).

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

	31 March 2011	31 March 2010
	HK$'000	HK$'000
Balance at beginning of year/period	2,269	–
Impairment losses recognised	–	2,269
Balance at end of the year/period	2,269	2,269

Included in the allowance for other receivables were individually impaired other receivables will an aggregate balance of approximately HK$2,269,000 (31 March 2010: HK$2,269,000) which have been placed in several financial difficulties. The Group did not hold any collateral over these balances.

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

	31 March 2011 HK$'000	31 March 2010 HK$'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**969,864**	627,002
Less: progress billings	**(701,860)**	(483,899)
	268,004	143,103
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**277,679**	160,424
Amounts due to customers for contract work	**(9,675)**	(17,321)
	268,004	143,103

As at 31 March 2011, retentions held by customers for contract work included in trade and retention receivables amounted to approximately HK$27,345,000 (31 March 2010: HK$24,475,000). Advances received from customers for contract works included in deposits received amounted to approximately HK$5,392,000 (31 March 2010: HK$4,957,000). At the end of both reporting periods, the management expected that both the retentions held by customers for contract works and advances received from customers for contract works would be realised within twelve months after the end of the respective reporting period.

30. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS

	31 March 2011 HK$'000	31 March 2010 HK$'000
北京市密云縣工業開發區總公司	**416**	2,556
北京市四博連通用機械新技術公司	**2,676**	2,014
	3,092	4,570

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

31. HELD-FOR-TRADING FINANCIAL ASSETS

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**50**	56

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

32. RESTRICTED BANK BALANCES/SHORT-TERM DEPOSITS/CASH HELD AT NON-BANK FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Restricted bank balances represent deposits required by customers and deposited into banks in respect of the construction work to certain customers and subsequently released upon the completion of the construction work after 31 March 2011, therefore are classified as current assets. For the year ended 31 March 2011, the balances carried interest at average market rate of 0.36% per annum. No restricted bank balances held at 31 March 2010.

Short-term bank deposits represent the fixed bank deposits carried interest at rates ranged from 2.5% to 3% per annum of which the maturity date is over 3 months. No short-term bank deposits held at 31 March 2010.

Cash held at non-bank financial institutions carried interest at 0.0001% (six months ended 31 March 2010: 0.0001%) per annum.

Bank balances carried interest at market rates of 0.36% (six months ended 31 March 2010: 0.36%) per annum.

33. TRADE PAYABLES

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Within 90 days	**17,301**	14,001
91 to 180 days	**7,612**	20,318
181 to 365 days	**14,709**	9,318
Over 365 days	**35,285**	40,476
	74,907	84,113

The average credit period on purchases of goods is from 90 to 180 days.

34. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Accrued liabilities	**9,843**	10,665
Deposits received	**57,939**	44,992
Other payables	**22,198**	14,155
	89,980	69,812

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

The amounts are unsecured, interest-free and repayable on demand. The amount due to an investee company was fully repaid during the year ended 31 March 2011.

36. AMOUNT DUE TO AN ASSOCIATE

The amount was unsecured, interest-free and repayable on demand.

37. CONVERTIBLE NOTES

On 7 November 2007, the Company issued zero coupon convertible notes in the principal amount of HK$160,000,000 ("Lisai Convertible Notes") to independent third parties as part of the consideration for the acquisition of the entire equity interest in Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited (together with its subsidiaries refer to as the "Lisai Group"). 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 at any time into shares of the Company at an initial conversion price of HK$0.4 per share and such conversion price has been adjusted to HK$1.6 per share effective from 1 February 2010 as a consequence of the Company's share consolidation. The effective interest rate of the liabilities component of the Lisai Convertible Notes is approximately 9.896%.

On 31 March 2008, the Company issued zero coupon convertible notes in the principal amount of HK$204,000,000 ("HYY Convertible Notes") to third parties as part of consideration for the acquisition of the entire equity interest in Beijing Enterprises Ever Source Limited. The HYY Convertible Notes will be matured on 30 March 2013. The note holder may convert the whole or part of the HYY Convertible Notes at any time into shares of the Company at an initial conversion price of HK$0.3 per share and such conversion price has been adjusted to HK$1.2 per share effective from 1 February 2010 as a consequence of the Company's share consolidation. The effective interest rate of the liabilities component of HYY Convertible Notes is approximately 11.936%.

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

	Lisai Convertible Notes		**HYY Convertible Notes**		
	Liability component	**Equity component**	**Liability component**	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2009	119,442	60,210	137,701	87,910	405,263
Imputed interest charged	5,911	–	8,218	–	14,129
Upon cancellation *(note a)*	(125,353)	(60,210)	–	–	(185,563)
At 31 March 2010	–	–	145,919	87,910	233,829
Imputed interest charged	–	–	7,486	–	7,486
Upon cancellation *(note b)*	–	–	(43,452)	(24,900)	(68,352)
Upon waiver *(note c)*	–	–	(32,235)	(18,473)	(50,708)
Upon conversion *(note d)*	–	–	(77,718)	(44,537)	(122,255)
At 31 March 2011	–	–	–	–	–

37. CONVERTIBLE NOTES *(Continued)*

Notes:

(a) During the six months ended 31 March 2010, the Company cancelled the Lisai Convertible Notes with principal amount of HK$160,000,000 according to the terms set out in the sales and purchase agreement in relation to the acquisition of Lisai Group on the ground that Shenzhen Lisai Industrial Development Company Limited could not meet the guaranteed profit during the guaranteed period as set out in the agreement. A gain of approximately HK$13,953,000 was recognised in the consolidated income statement. The related equity component of approximately HK$11,610,000 in relation to the Lisai Convertible Notes was released to the accumulated losses accordingly.

(b) During the year ended 31 March 2011, the Company cancelled the HYY Convertible Notes with principal amount of HK$57,783,000 according to the terms set out in the HYY Agreement on the ground that HYY Group could not meet the Guaranteed Profit during the guaranteed period as set out in the agreement. A gain of approximately HK$5,049,000 was recognised in the consolidated income statement. The related equity component of approximately HK$5,520,000 in relation to the HYY Convertible Notes was released to the accumulated losses accordingly.

(c) During the year ended 31 March 2011, HYY Convertible Notes with principal amount of approximately HK$42,867,000 has been waived for repayment by the HYY Convertible Notes holder who is also a substantial shareholder of the Company. The liability component of approximately HK$32,235,000 was credited to capital reserve and the related equity component of approximately HK$18,473,000 was released to the accumulated losses accordingly.

(d) During the year ended 31 March 2011, HYY Convertible Notes with principal amount of approximately HK$103,350,000 were converted by the HYY Convertible Notes holder into 86,125,000 new ordinary shares of the Company of US$0.04 each at a conversion price of HK$1.2 per share. The difference of approximately HK$95,384,000 between nominal value of the ordinary shares issued and the aggregate carrying amounts of the liability and equity components of the relevant HYY Convertible Notes at the date of conversion was transferred to the Company's share premium account.

38. DEFERRED INCOME

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Balance at beginning of the year/period	**4,458**	25,179
Exchange adjustments	**80**	77
Government grants received	**–**	12,807
Amortisation of deferred income on government grants	**(486)**	(1,495)
Disposal of subsidiaries *(Note 40(a))*	**(4,052)**	(32,110)
Balance at end of the year/period	**–**	4,458

Certain subsidiaries of the Group received government grants subsidising purchase of plant and equipment for specified purposes. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as deferred income and amortised over the estimated useful life of the related plant and equipment acquired. During the year, deferred income of approximately HK$486,000 (six months ended 31 March 2010: HK$1,495,000) was amortised and recognised in the consolidated income statement.

39. SHARE CAPITAL

	Number of shares US$0.01 each		Number of shares US$0.04 each		Share capital		Share capital	
	31 March 2011	31 March 2010	**31 March 2011**	31 March 2010	**31 March 2011**	31 March 2010	**31 March 2011**	31 March 2010
	'000	*'000*	***'000***	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares								
Authorised:								
At beginning of the year/period	–	8,000,000	**4,000,000**	–	**160,000**	80,000	**1,248,000**	624,000
Share consolidation *(Note a)*	–	(8,000,000)	–	2,000,000	–	–	–	–
Increase in the period *(Note b)*	–	–	–	2,000,000	–	80,000	–	624,000
At end of the year/period	–	–	**4,000,000**	4,000,000	**160,000**	160,000	**1,248,000**	1,248,000
Issued and fully paid:								
At beginning of the year/period	–	6,753,112	**1,696,778**	–	**67,871**	67,531	**529,387**	526,735
Share consolidation *(Note a)*	–	(6,753,112)	–	1,688,278	–	–	–	–
Exercise of share options *(Note c)*	–	–	**47,700**	8,500	**1,908**	340	**14,882**	2,652
Conversion of convertible notes *(Note d)*	–	–	**86,125**	–	**3,445**	–	**26,871**	–
Subscription of shares *(Note e)*	–	–	**234,704**	–	**9,388**	–	**73,228**	–
At end of the year/period	–	–	**2,065,307**	1,696,778	**82,612**	67,871	**644,368**	529,387

Notes:

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

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

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

(c) During the year ended 31 March 2011, 47,700,000 ordinary shares of US$0.04 each were issued at price of HK$0.3304 per share upon exercise of share options granted on 23 June 2009.

During the six months ended 31 March 2010, 8,500,000 ordinary shares of US$0.04 each were issued at a price of HK$0.3304 per share upon exercise of share options granted on 23 June 2009.

The above new ordinary shares issued rank pari passu with the existing shares in all respects.

(d) During the year ended 31 March 2011, convertible notes amounting to HK$103,350,000 were converted into 86,125,000 ordinary shares of US$0.04 each at a conversion price of HK$1.2 per share (Note 37 (d)).

(e) On 18 January 2011, the Company allotted and issued an aggregate of 234,704,000 ordinary shares of US$0.04 each by way of subscription issue at a price of HK$0.3184 per share. The net proceeds of approximately HK$74,731,000 were used for general working capital of the Group. These new ordinary shares were issued rank pari passu with the existing shares in all respects.

40. DISPOSAL OF SUBSIDIARIES

For the year ended 31 March 2011

(a) As referred to Note 12, on 13 September 2010, the Group discontinued of its environmental protection segment at the time of disposal of its wholly-owned subsidiary, IIN Network Technology Group. The net assets of IIN Network Technology Group at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Goodwill	–
Property, plant and equipment	4,981
Deferred tax assets	148
Inventories	2,953
Trade receivables	6,306
Prepayment, deposits and other receivables	6,901
Bank balances and cash	9,115
Trade payables	(3,301)
Other payables and accrued liabilities	(2,133)
Tax payables	(6,011)
Deferred income	(4,052)
	14,907
Release of exchange translation reserve	(808)
	14,099
Gain on disposal	15,901
Total consideration	30,000
Satisfied by:	
Cash	23,000
Consideration receivable (included in other receivable)	7,000
	30,000
Net cash inflow arising on disposal:	
Cash consideration	23,000
Bank balances and cash disposed of	(9,115)
	13,885

The impact of IIN Network technology group on the Group's revenue, results and cash flows in the current and prior periods is disclosed in Note 12.

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2011 (Continued)

(b) On 4 August 2010, the Group disposed its wholly-owned subsidiary, Hunan IIN International Co., Limited ("Hunan IIN"), to an independent third party at HK$1. The net liabilities of Hunan IIN at the date of disposal were as follows:

	HK$'000
Net liability disposed of:	
Other payables and accrued liabilities	(356)
	(356)
Release of exchange translation reserve	(5,410)
	(5,766)
Gain on disposal	(5,766)
Total consideration	–
Satisfied by:	
Cash	–

Hunan IIN had no significant contribution to the revenue results and cash flows of the Group for the year.

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the six months ended 31 March 2010

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

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

40. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the six months ended 31 March 2010 (Continued)

During the period from 1 October 2009 to 30 March 2010, Dalian Ever Source contributed approximately HK$7,936,000 to the Group's revenue, a loss of approximately HK$7,790,000 to the Group's loss for the period, cash inflow of approximately HK$27,574,000 in respect of operating activities and cash outflow of HK$76,896,000 of respect of investing activities.

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

(d) On 30 March 2010, the Group disposed of a wholly-owned subsidiary, Future Faith Group Limited and its subsidiaries, TM Technology Corporation and Chengdu TM Technology Corporation ("Future Faith Group") to an independent third party at HK$1. The net liabilities of Future Faith Group at the date of disposal were as follows:

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

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

(e) On 30 March 2010, the Group disposed of an indirect wholly-owned subsidiary, Telechina Group Limited and its subsidiary Hunan Modern Time Technology Limited ("Telechina Group") to an independent third party at HK$1. The assets and liabilities of Telechina Group as at the date of disposal were insignificant and therefore no significant gain or loss arose upon such disposal.

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

41. DEEMED DISPOSAL OF A SUBSIDIARY

On 30 April 2010, there were capital enlargement and injection of capital by an independent third party to BEHP, the subsidiary of the Group. The Group's equity interest in BEHP was diluted from 100% to 49%. This transaction is regarded as a deemed disposal of a subsidiary and BEHP becomes an associate of the Group (for details please refer to Note 22).

Analysis of assets and liabilities of BEHP over which control was lost:

	At 30 April 2010
	HK$'000
Goodwill	2,728
Property, plant and equipment	6,495
Deferred tax assets	282
Inventories	24,521
Trade receivables	2,618
Other receivables, prepayments and deposits	170
Amount due from group companies	11,957
Bank balances and cash	95
Trade payables	(10,358)
Other payables and accruals	(1,786)
Tax payable	(200)
	36,522
Release of exchange translation reserve	(5,267)
Net assets disposed of	31,255
Gain on deemed disposal	
Interest in an associate	32,591
Net assets disposed of	(31,255)
Gain on deemed disposal of a subsidiary	(1,336)
Net cash outflow arising on deemed disposal	
Bank balances and cash disposed of	95

During the period from 1 April 2010 to 30 April 2010, BEHP contributed approximately HK$4,340,000 to the Group's revenue, a profit of approximately HK$798,000 to the Group's profit for the period, cash outflow approximately HK$4,499,000 in respect of operating activities and cash outflow of HK$354,000 in respect of investing activities.

42. DEREGISTRATION OF SUBSIDIARIES

During the year ended 31 March 2011, the Group deregistered a total of three non wholly-owned subsidiaries, namely China Ground Source Energy Journal Limited ("CGSEJL"), 上海恒有源科技發展有限公司 ("上海恒有源科技發展") and 北京中恒嘉源科技發展有限公司 ("北京中恒嘉源").

Net assets (liabilities) of the deregistered subsidiaries at their respective dates of deregistration were as follows:

	CGSEJL	上海恒有源科技發展	北京中恒嘉源	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets (liabilities) disposed of:				
Property, plant and equipments	–	9	–	9
Bank balances and cash	–	–	3,402	3,402
Prepayments and other receivables	–	–	16	16
Accrued liabilities and other payables	(1)	(236)	–	(237)
Net assets (liabilities)	(1)	(227)	3,418	3,190
Non-controlling interests	–	76	(2,797)	(2,721)
Release of exchange translation reserve	–	(79)	(262)	(341)
(Gain) loss on deregistration	(1)	(230)	359	128
Net cash outflow arising on deregistration				
Bank balance and cash	–	–	(3,402)	(3,402)

The deregistered subsidiaries did not have significant contribution to the Group's revenues, profit and cash flow for the year.

43. MAJOR NON-CASH TRANSACTIONS

During the six months ended 31 March 2010

(a) The settlement of compensation receivable of approximately HK$160,000,000 for shortfall in respect of the profit guarantee under the sales and purchase agreement in relation to the acquisition of Lisai Group was effected through the cancellation of Lisai Convertible Notes during the six months ended 31 March 2010.

(b) As at 31 March 2010, deferred consideration of HK$12,875,000 and HK$6,036,000 in relation to the disposal of Dalian Ever Source as disclosed in Note 40(c) were included in other receivables under non-current assets and current assets respectively.

(c) As at 31 March 2010, there was a balance consideration of RMB13,165,000 (equivalent to HK$14,952,000) in relation to the disposal of available-for-sale investments as disclosed in Note 22(b) and was included in other receivables under current assets.

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

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

44. OPERATING LEASES

The Group as lessee

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Within one year	**6,160**	7,174
In the second to fifth years inclusive	**13,964**	20,070
Over five years	**22,125**	28,584
	42,249	55,828

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

45. CAPITAL COMMITMENTS

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	**24,971**	23,851
– Acquisition of property, plant and equipment	**–**	1,170
– Acquisition of land use rights	**167,663**	160,139
	192,634	185,160

46. SHARE-BASED PAYMENT TRANSACTIONS

The principal purpose of the share option schemes of the Company is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentive to these persons to continue to contribute to the Group's long term success and prosperity. The Company has a share option plan adopted on 22 November 2001 and a share option plan adopted on 28 July 2010.

Share Option Plan 2001

On 22 November 2001, the Company adopted a share option scheme (the "Share Option Plan 2001") conditionally upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. The Share Option Plan 2001 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 2001, 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 2001 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 2001 or any other share option scheme.

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 2001 and any other schemes must not exceed 30% of the shares of the Company from time to time.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the board of director, and commences on any date after the date of grant and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Share Option Plan 2001, if earlier.

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

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

Share Option Plan 2010

Pursuant to the ordinary resolutions passed at the extraordinary general meeting of the Company on 28 July 2010, the Company terminated the Share Option Plan 2001 and adopted a new share option scheme (the "Share Option Plan 2010"). The Share Option Plan 2010 will remain in force for a period of ten years commencing from the date of adoption. Existing share options granted under Share Option Plan 2001 will continue to be valid and exercisable in accordance with the Share Option Plan 2001.

Under the Share Option Plan 2010, the grantees may include (i) any full time or part time employee, director (including non-executive director and independent non-executive director) of the Company, and any of its subsidiaries and invested entity; (ii) any supplier of goods or services to any member of the Group or any invested entity; (iii) any customer of the Group or any invested entity; (iv) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any invested entity; and (v) any other person who, at the sole determination of the board of directors, has contributed to the Group based on certain assessment criteria.

The total number of shares which may be issued upon exercised of all options to be granted under the Share Option Plan 2010 and any other share option scheme of the Company, must not in aggregate exceed 10% of the total number of shares in issue, unless the approval of shareholders in general meeting.

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 2010 and any other schemes must not exceed 30% of the total number of shares of the Company in issue from time to time.

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

The exercise price of share options is determined by the board of director, but may not be less than the highest 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.

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

Details of specific categories of options granted under the Share Option Plan 2001 are as follows:

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

Details of specific categories of options granted under the Share Option Plan 2010 are as follows:

Batch	Date of grant	Vesting period	Exercise period	Exercise price per share
Grant 1	9 September 2010	N/A	9 September 2010 to 8 September 2020	HK$0.4260
		9 September 2010 to 8 September 2011	9 September 2010 to 8 September 2020	
		9 September 2010 to 8 September 2012	9 September 2010 to 8 September 2020	
		9 September 2010 to 8 September 2013	9 September 2010 to 8 September 2020	

Note:

The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. Following the share consolidation which became effective on 2 February 2010, as detailed in Note 39(a), the exercise price and the number of the share options outstanding were adjusted accordingly.

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

Share Option Plan *(Continued)*

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

Year ended 31 March 2011

Date of grant	Outstanding at 1 April 2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2011
Directors					
7 March 2002	2,500,000	–	–	–	2,500,000
5 June 2003	750,000	–	–	–	750,000
23 June 2009	56,250,000	–	–	–	56,250,000
9 September 2010	–	54,700,000	–	–	54,700,000
	59,500,000	54,700,000	–	–	114,200,000
Employees					
1 March 2002	75,000	–	–	–	75,000
29 May 2007	2,750,000	–	–	–	2,750,000
23 June 2009	75,200,000	–	(47,700,000)	–	27,500,000
9 September 2010	–	118,292,000	–	–	118,292,000
	78,025,000	118,292,000	(47,700,000)	–	148,617,000
	137,525,000	172,992,000	(47,700,000)	–	262,817,000
Exercisable at the end of year					164,067,000
Weighted average exercise price	HK$0.369	HK$0.426	HK$0.330	–	HK$0.325

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

Share Option Plan *(Continued)*

Six months ended 31 March 2010

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

In respect of the share options exercised during the year ended 31 March 2011, the weighted average share price at the dates of exercise is HK$0.330 (six months ended 2010: HK$0.43).

During the year ended 31 March 2011, options were granted on 9 September 2010. The estimated fair values of the options granted on that date were approximately HK$24,555,000.

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

Share Option Plan *(Continued)*

For the share options granted on 23 June 2009, the fair value was calculated using the Trinomial Option Pricing Model. The fair value of share options granted on 9 September 2010 was calculated using Binominal Option Pricing Model. The inputs into the model were as follows:

	23 June 2009	9 September 2010
Share price on the date of grant	HK$0.0820	HK$0.415
Exercise price	HK$0.0826	HK$0.426
Expected volatility	115.15%	72%
Expected life	1.4 years	8.5 years
Risk-free rate	1.787%	1.95%
Expected dividend yield	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years.

The Group recognised the total expense of approximately HK$22,150,000 for the year ended 31 March 2011 (six months ended 31 March 2010: HK$907,000) in relation to share options granted by the Company.

47. RETIREMENT BENEFITS SCHEME

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the PRC whereby the Group is required to make contributions to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirement in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the Scheme is to pay the ongoing retired contribution under the Scheme.

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

During the year, the Group made retirement benefits scheme contributions totaling HK$3,189,000 (six months ended 31 March 2010: HK$987,000). At the end of the reporting period, there are no forfeited contributions.

48. RELATED PARTY TRANSACTIONS

(a) Amounts due from/to non-controlling shareholders, associates and an investee company are included in the consolidated statement of financial position. The terms are set out in Notes 30, 35 and 36 respectively.

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Operating lease payments paid to a non-controlling shareholder	**2,433**	1,166
Interest paid to an associate	**–**	2,813
Sales to an associate	**27,664**	–
Purchase from an associate	**27,018**	–
	57,115	3,979

(c) **Compensation of key management personnel**

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Short-term benefits	**8,311**	3,468
Retirement benefits scheme contributions	**102**	12
Share-based payment expenses	**14,061**	–
	22,474	3,480

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

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 March 2011 HK$'000	31 March 2010 HK$'000
Non-current assets			
Property, plant and equipment		**36**	472
Interests in subsidiaries	*(a)*	**836,134**	895,735
		836,170	896,207
Current assets			
Prepayments, deposits and other receivables		**1,073**	1,325
Amounts due from subsidiaries	*(a)*	**160,885**	80,000
Bank balances and cash		**62,335**	53,913
		224,293	135,238
Current liabilities			
Accrued liabilities and other payables		**1,350**	1,165
Amounts due to subsidiaries	*(b)*	**57,418**	51,859
		58,768	53,024
Net current assets		**165,525**	82,214
Total assets less current liability		**1,001,695**	978,421
Non-current liabilities			
Convertible notes		**–**	145,919
Net assets		**1,001,695**	832,502
Capital and reserves			
Share capital		**644,368**	529,387
Reserves	*(c)*	**357,327**	303,115
Total equity		**1,001,695**	832,502

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

Notes:

(a) Interests in subsidiaries

		31 March 2011	31 March 2010
		HK$'000	HK$'000
Unlisted investments, at cost		**43,437**	43,437
Amounts due from subsidiaries – non-current	*(i)*	**1,023,585**	1,083,186
Amounts due from subsidiaries – current	*(ii)*	**160,885**	80,000
		1,227,907	1,206,623
Less: Impairment loss recognised on investment		**(43,437)**	(43,437)
Impairment loss recognised on amount due from subsidiaries – non-current		**(187,451)**	(187,451)
		(230,888)	(230,888)
		997,019	975,735
Analysed for reporting purposes as:			
Non-current asset		**836,134**	895,735
Current asset		**160,885**	80,000
		997,019	975,735

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

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

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

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

Notes: (Continued)

(c) Reserves

	Share premium	Convertible notes reserve	Share-based payment reserve	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2009	506,089	148,120	27,136	–	(324,191)	357,154
Loss and total comprehensive expense for the period	–	–	–	–	(6,502)	(6,502)
Recognition of share-based payment expenses	–	–	907	–	–	907
Issue of shares upon exercise of share options	1,744	–	(1,588)	–	–	156
Lapse of share options	–	–	(215)	–	215	–
Release upon cancellation of convertible notes	–	(60,210)	–	–	11,610	(48,600)
At 31 March 2010	507,833	87,910	26,240	–	(318,868)	303,115
Loss and total comprehensive expense for the year	–	–	–	–	(34,019)	(34,019)
Recognition of share-based payment expenses	–	–	22,150	–	–	22,150
Issue of shares upon exercise of share options	9,788	–	(8,910)	–	–	878
Issue of shares upon share subscription	1,502	–	–	–	–	1,502
Issue of shares upon conversion of convertible notes	95,384	(44,537)	–	–	–	50,847
Release upon waiver of convertible notes	–	(18,473)	–	32,235	18,473	32,235
Release upon cancellation of convertible notes	–	(24,900)	–	–	5,519	(19,381)
At 31 March 2011	614,507	–	39,480	32,235	(328,895)	357,327

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

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2011 and 2010 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				31 March 2011	31 March 2010	**31 March 2011**	31 March 2010	
II Networks International Limited ##	BVI	Ordinary shares	US$166,667	**100%**	100%	–	–	Investment holding and trading of securities
北京北控恒有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Company Limited*) #	PRC	Registered capital	US$3,000,000	–	–	**99.97%**	99.97%	Technical know-how holding
北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited*) #	PRC	Registered capital	RMB3,000,000	–	–	**94.58%**	94.58%	Property management and technical support service
恒有源科技發展有限公司 (Ever Source Scientific and Technology Development Co., Ltd*) #	PRC	Registered capital	RMB189,188,502	–	–	**94.58%**	94.58%	Production and sales of geothermal energy systems
北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited*) #	PRC	Registered capital	RMB50,000,000	–	–	**94.58%**	94.58%	Installation of energy systems
Shenzhen Lisai Industrial Development Company Limited# *(Note)*	PRC	Registered capital	RMB30,000,000	–	–	–	100%	Provision of environment protection solutions
BEHP# *(Note 41)*	PRC	Registered capital	US$300,000	–	–	–	100%	Production and sales of machineries geothermal energy systems

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

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

Note:

The Subsidiary was disposed during the year.

* English name is for identification purpose only.

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

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

51. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of certain amounts previously classified under revenue, cost of sales, other revenue, administrative expenses, allowance for doubtful debts, finance costs and income tax to loss for the period from discontinued operation. The above reclassification has no effect on the comparative figures on the consolidated statement of financial position presented.

52. EVENTS AFTER THE REPORTING PERIOD

As announced by the Company on 14 February 2011, the Company proposed to effect the capital reorganisation ("Capital Reorganisation") which involves: (i) capital reduction: the reduction of the nominal value of each share in issue from US$0.04 to US$0.01 by cancelling the paid-up capital to the extent of US$0.03 on each existing shares of US$0.04 of the Company and (ii) share subdivision: the subdivision of every authorised but unissued existing share of par value US$0.04 each into four new shares of par value US$0.01 each.

Details of which are set out in the Company's announcement dated 14 February 2011 and circular dated 28 February 2011.

Pursuant to a special resolution passed in the extraordinary general meeting on 23 March 2011 and the approval obtained from the Grand Court of the Cayman Islands on 17 June 2011, the above Capital Reorganisation became effective on 23 June 2011.