TECHNOLOGY AND RESOURCES LINKS

ANNUAL REPORT 2011/12

CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Chan Wai Kay Katherine
Xu Shengheng

Non-executive director

Luk Hoi Man

Independent non-executive directors

Jia Wenzeng
Chow Wan Hoi Paul
Wu Desheng

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

Chan Wai Kay Katherine

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Chow Wan Hoi Paul
Wu Desheng

REMUNERATION COMMITTEE

Chow Wan Hoi Paul *(Chairman)*
Jia Wenzeng
Wu Desheng

NOMINATION COMMITTEE

Chan Wai Kay Katherine *(Chairman)*
Chow Wan Hoi Paul
Jia Wenzeng
Wu Desheng

AUTHORISED REPRESENTATIVES

Xu Shengheng
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

Keith Lam Lau & Chan
5th-7th Floors
The Chinese Club Building
21-22 Connaught 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.cgsenergy.com.hk

Chairman's Statement

To all Shareholders:

On behalf of the board of directors (the "Board") of China Ground Source Energy Limited ("the Company"), I am 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 2012 (the "Review Period").

Following the adjustment to the business model of the Group for promotion of ground source energy as alternative energy for heating and with more than a year of practice and implementation on the existing five business models by its best endeavour, the value of the Company has been steadily increased. The revenue generated for the Review Period was HK$318 million. Despite slight decrease in revenue was recorded as compared to that of last year, the net profit reached a notable increase level to HK$63 million, substantially rising 75% as compared to that of last year. The Group's gross profit margin also increased satisfactorily from 38.9% last year to 46.2% for the current fiscal year. The decrease in revenue was mainly due to the strategy adjustment on marketing, sale and operation by Ever Source Scientific and Technology Development Co., Ltd. (恒有源科技發展有限公司) ("HYY"), the operating entity of the Group, in order to strive for better profit for the projects and optimization of the customers' orders. With enhanced cost control measures, the Group's gross profit margin as well as the net profit achieved substantial increases.

The Group's two existing business models including self-built demonstration projects with application of ground source energy and the urban infrastructure of multi-source energy station are currently under the development stage and will remain under construction in the next few quarters. It is expected that remarkable revenue will be contributed to the Group when operation commences and it will become a leap forward point for profit growth.

In addition, the Group has entered into a letter of intent with China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited ("CECEP(HK)") for the subscription of new shares in April this year which has already been approved by the shareholders of the Company in the extraordinary general meeting held on 22 June 2012. Apart from considerable amount of funds can be raised from the subscription to cater for the future business development needs, this co-operation is also of strategic value. After completion of the subscription, CECEP(HK) would become the single largest substantial shareholder of the Company. CECEP(HK) is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group, a large-scale state-owned enterprise, which principally engaged in energy conservation and environmental protection projects and its investments. It is expected that the co-operation with CECEP(HK) in the context of the development of energy-saving and environmental protection will be vast, especially in the areas of energy-saving building/construction which will provide opportunities for the Group to increase its revenue and market share in the field of promotion of ground source energy as alternative energy for heating/cooling. More importantly, it will also accelerate the Group to become a leading enterprise in its territory and to create higher returns for shareholders as a whole.

Furthermore, the "Twelve-Fifth Plan" proposed by the PRC government clearly states that it will implement 350 million square meters construction area for using ground source heat pump for heating by 2015. According to the predictions made by some experts, it is forecasted that the total market of geothermal energy development and utilisation will be at least RMB70 billion and that the PRC is with a great potential and a bright future for ground source energy utilisation. With the increasing support from the government towards the utilisation of renewable energy and the enhancement of the people's awareness of energy saving and environmental protection which at the macro point of view will be advantageous to the Group's business development. Coupled with the Company's well recognized unique technology and professional team, the Group is confident that the development and performance of the Company will scale new heights, and the shareholders of the Company can share the results.

Chairman's Statement

I would like to take this opportunity to express my highest respect 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. The Group will focus in pursuing the goal to maximizing the effectiveness of the company and the shareholders' value, and actively promote the research and development of ground source energy technology, keep abreast of innovative technology and effective management so as to maintain the sustainable and steady development of the company and enhance the value of the Company and its shareholders.

Sincerely,

Chan Wai Kay Katherine
Chairman

Hong Kong, 28 June 2012

Management Discussion and Analysis

HIGHLIGHTS

The Group's profit attributable to shareholders for the year ended 31 March 2012 was HK$54 million on a turnover of HK$318 million, compared with a profit of HK$34 million on a turnover of HK$322 million for the previous year.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 March 2012 and 2011.

	Year ended 31 March 2012		Year ended 31 March 2011	
	HK$'000	***%***	*HK$'000*	*%*
Continuing operations:				
Turnover:				
– Shallow ground energy system utilisation	**313,572**	**99**	320,603	95
– Properties investment	**4,507**	**1**	–	–
– Dividend income	**–**	**–**	1,608	1
	318,079	**100**	322,211	96
Discontinued operation:				
Turnover:				
– Sewage and gas treatment income	**–**	**–**	14,016	4
Total turnover from continuing operations and discontinued operation	**318,079**	**100**	336,227	100

TURNOVER AND PROFITS

Total turnover from operations for the year under review were approximately HK$318 million, as compared with HK$322 million for year ended 31 March 2011. The turnover of approximately HK$14 million from discontinued operation for the year ended 31 March 2011 was contributed by environmental protection segment, which was disposed of by the Group in September 2010.

Turnover from shallow ground energy utilisation system was steady following the substantial expansion of workload in different provinces in the People Republic of China ("PRC").

During the year under review, the Group recorded net profit of approximately HK$63 million compared with a profit of approximately HK$36 million for the year ended 31 March 2011. The increase in net profit was primarily due to the increase in the gross profits of the sales and installation of shallow ground energy utilisation system achieved by the Group's optimization on customers' orders; and the fair value changes on investment properties of the Group.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year was approximately HK$147 million or, as a percentage of revenue, 46.2%. (2011: HK$125 million, 38.9% of revenue). The increase was mainly due to higher profit margin from shallow ground energy utilisation achieved by the Group's optimization on customers' orders.

SELLING & DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Selling and distribution costs decreased by approximately HK$2 million, or 19% as compared with that of the year ended 31 March 2011. The decrease is primarily due to the decrease of after sales service cost of company projects.

Administrative expenses amounted to approximately HK$68 million and HK$64 million for the years ended 31 March 2012 and 2011 respectively. The expenses were remained at similar level as compared with the last year.

SEGMENTAL INFORMATION

The Group's operating segment consists of shallow ground energy utilisation, securities investment and trading and properties investment segments.

Shallow Ground Energy Utilisation

During the year ended 31 March 2012, there were capital injection by the Group to a subsidiary, 綿陽市金恒源地能科技有限公司 in Sichuan Province. The Group expanded the business in provinces other than Beijing and Dalian.

Securities investment and trading

The Group utilised the idle fund for securities investment and trading in order to increase the shareholders' net wealth.

Properties investment

During the year ended 31 March 2012, the Group had expanded its business to the self-built demonstration projects in Beijing and Dalian for promotion of the application of ground source energy as alternative energy for heating/cooling supply. The substantial increase in fair value gain on investment properties in 2012 was mainly the result of the valuation of Wanghaixingcheng (旺海興城) in Dalian.

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

Net current assets of the Group as at 31 March 2012 was approximately HK$427 million (2011: approximately HK$347 million). As at 31 March 2012, the Group had cash and bank balances of approximately HK$136 million (2011: approximately HK$144 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes. Our principal sources of liquidity have been derived from cash from operations.

CHARGES OF GROUP ASSETS

As at 31 March 2012, no group assets have been charged (2011: Nil).

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 2012, the Group had no foreign exchange contracts (2011: Nil).

Management Discussion and Analysis

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank loans) to the equity (including all capital and reserves) of the Company, increased to 0.2% for the year under review (2011: N/A), mainly as a result of raising bank loans during the year.

EMPLOYEES

As at 31 March 2012, the Group employed approximately 550 people (2011: approximately 500). The increase in the number of employees compared to 2011 was due to the expansion of business in different provinces.

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.

SHARE OPTION PLAN

The Company has a share option plan that provides for incentive reward by the issuance of options to its directors, officers and employees.

The detailed disclosures relating to the Company's share option plan are set out in note 50 to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at 31 March 2012, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings except a petition was made against to three directors of the Company and the Company, details of the petition can be referred to the Company's announcement dated 14 June 2012. Based on the advice of the legal advisors, they do not see any direct liability due from the Company to the petitioner under the claims, therefore, no material 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 (2011: Nil).

CAPITAL STRUCTURE

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 23 March 2011, and the subsequent Order of the Grand Court of the Cayman Islands granted on 17 June 2011, the Company effected a capital reduction (the "Capital Reduction") which took effect on 23 June 2011. The paid-up capital on each of its issued ordinary share of US$0.04 was cancelled to the extent of US$0.03 per share, and the nominal value of each of the issued ordinary shares of the Company was reduced from US$0.04 per share to US$0.01 per share.

A total credit of approximately HK$483 million arose as a result of the Capital Reduction of which an amount of approximately HK$329 million was applied towards writing off the accumulated losses of the Company as at 31 March 2011.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 49 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 and properties investment segment in the future.

On 11 April 2012, the Company entered into the Letter of Intent with the subscriber in relation to the allotment and issue of 850,000,000 Subscription Shares at a price of HK$0.41 per Subscription Share. Amongst the net proceeds of HK$ 347.5 million, approximately HK$200 million will be used for initial capital injection into Heng Run Feng Infrastructure Construction (Dalian) Co., Ltd. (恒潤豐城市基礎設施建設（大連）有限公司), a subsidiary of the Company, formed for the construction of the multi-source energy station. The remaining HK$147.5 million will be mainly applied to the Company's business development of its self-built demonstration projects in Beijing and Dalian for promotion of the application of ground source energy as alternative energy for heating/cooling supply, the general working capital of the Company and/or for future investment opportunities in the area of energy conservation and environmental protection. Please refer to the company's circular dated 5 June 2012 for more details.

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. The Company will continue to explore new opportunities in energy-related projects in PRC and overseas.

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisition and disposal transactions are set out in notes 43, 44 and 45 respectively to the consolidated financial statements of this report.

BUSINESS REVIEW AND OUTLOOK

The Group focuses on the research on, design and production for, the development and utilisation of ground source energy to provide a wide range of technological services. Leveraging on five business models, the Group endeavors to promote the development of using ground source energy as alternative energy for heating in China in the pursuit of the harmony between human beings and nature. With the investment and operating costs that are flat to the level of conventional energy, while heating/cooling supply to buildings can be guaranteed, pollution-free to the regions under heating/cooling supply can also be realised. With an aim to solve the ecological problem arising from energy consumption for heating while improving the quality of life of people in China, full efforts have been made to build the Group into the most competitive new energy enterprise in the utilisation of ground source energy of the world. We spare no effort in promoting green energy for a better life and living condition and achieving harmonious development.

Ever Source Scientific and Technology Development Co., Ltd. (恒有源科技發展有限公司) ("HYY"), the core enterprise of the Group, is an innovative designer of know-how and system integrator of ground source energy as alternative energy for heating. HYY has accumulated substantial operating data and extensive practical experience in using ground source energy as alternative energy for heating/cooling for buildings with various functions in different regions and different geological conditions. With technological innovation as its top priority, HYY has made continuous efforts to improve its research and development capability, the buildings using HYY ground source energy heat pump environmental system to supply heat for buildings result in more than 60% of the total energy consumption for heating supply of the building is renewable energy, which makes the application of technology more practical and more outstanding.

The five business models promoting ground source energy as alternative energy for heating include;

1. Gains from the use of patent technology and commissioned processing of the relevant patent products

2. Applied design, equipment integration, sales and installation projects of HYY ground source energy heat pump environmental system

3. Energy contracting management for buildings

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

5. Construction and development of distributed multi-source energy stations focused on using ground source energy

During the period, the gross margin of our applied design, equipment integration, sales and installation projects of HYY ground source energy heat pump environmental system grew steadily due to the improved client orders. Meanwhile, due to its proactively expansion of marketing channels, the new business models began to bear fruit.

The Chinese government has been actively promoting energy contracting management to meet the target of energy saving and emission reduction. Combining with the business characteristics of promoting ground source energy, the Group takes this opportunity to strengthen the business of energy contracting management and make it become a new source of future profit growth.

Dalian Wanghaixingcheng project and Beijing industrial base project, the two self-built demonstration projects invested by the Group, are under construction and developing in phases as scheduled.

The Group had entered into a cooperation agreement with Wafangdian municipal government. Pursuant to which the Group supplied 200,000 kW of heat for 3,000,000 square meters under the first phase of development (1.23 square kilometers) of Land A, which covers an area of 4.12 square kilometers. The construction of distributed multi-source energy stations focused on using ground source energy is now in the process of preparing the design proposal.

The Group had entered into a letter of intent for new share subscription with China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (中國節能環保（香港）投資有限公司) (“CECEP(HK)”), a wholly-owned subsidiary of a large state-owned enterprise in the field of energy conservation and environmental protection. Upon completion of the subscription, CECEP(HK) will provide a good opportunity for the Group to increase its revenue and market share in the promotion of ground source energy. The Group will also become the sole listed company in Hong Kong with a large state-owned enterprise as its single largest shareholder specified in the field of promoting the ground source energy as alternative energy for heating.

We believe that the industry of using ground source energy as alternative energy for heating will achieve a substantial and stable growth and further improve our operating results in virtue of the reasonable adjustments and efforts we made, which have enhanced our standard of scientific research on the utilisation of ground source energy as alternative energy for heating, and by the improvement of the five innovative and sustainable profit models we made in practice.

Biography of Directors

Ms. Chan Wai Kay Katherine (**"Ms. Chan"**), aged 53, 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 49, 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 13 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.

Ms. Luk Hoi Man ("Ms. Luk"), aged 41, the non-executive Director of the Company, graduated from The Chinese University of Hong Kong in 1994 and holds a Bachelor degree of Business Administration. Ms. Luk held executive management positions in various investment companies and has over 11 years of in-depth experience in administration and management. Ms. Luk is the spouse of Mr. Xu Shengheng ("Mr. Xu") who is currently the chief executive officer and a substantial shareholder of the Company.

Mr. Jia Wenzeng (**"Mr. Jia"**), aged 69, an independent non-executive Director, the chairman of audit committee and members of remuneration committee and nomination 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 56, an independent non-executive Director, the chairman of remuneration committee and members of the audit committee and nomination 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.

Wu Desheng ("Mr. Wu"), aged 73, is an independent non-executive Director, members of audit committee, remuneration committee and nomination committee of the Company. Mr. Wu is the Vice President of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, President of the Civil Engineering & Architectural Society of Beijing, Director of the Committee of Professional Education Assessment of Building Environment and Equipment under the Ministry of Housing and Urban-Rural Development, the Education Supervisor and Adjunct Professor of Tsinghua University, Beijing University of Civil Engineering and Architecture and Xi'an Jiaotong University. Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963. He worked as a technician at the Design Institute for Glass Industry of the Ministry of Construction between 1963 and 1971. Since 1971, he has been serving in various key positions at the Beijing Institute of Architectural Design, such as the Institute Head and Chief Engineer, and currently he is the Chief Consulting Engineer of the institute. Mr. Wu has obtained a number of awards, including the silver medal of the National Design Award and the National Labour Medal.

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 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 55 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 March 2012 by business segments are set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 March 2012 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 110.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and minority interests of the Group for the years ended 31 March 2012 and 2011, for the six months ended 31 March 2010 and for the last two 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	
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	
Turnover	**318,079**	322,211	162,323	365,674	235,037
Profit/(loss) before income tax	**98,255**	38,775	38,947	(173,078)	10,365
Income tax (expense)/credit	**(34,862)**	(15,004)	(12,618)	(714)	455
Profit/(loss) for the year/period from continuing operation	**63,393**	23,771	26,329	(173,792)	10,820
Profit/(loss) for the year/period from discontinued operation	–	12,532	(75,099)	(1,644)	–
Profit/(loss) for the year/period	**63,393**	36,303	(48,770)	(175,436)	10,820
Attributable to:					
Owners of the Company	**54,234**	34,413	(46,404)	(175,299)	9,170
Non-controlling interests	**9,159**	1,890	(2,366)	(137)	1,650
	63,393	36,303	(48,770)	(175,436)	10,820

Assets, liabilities and minority interests

	As at 31 March			As at 30 September	
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	
Total assets	**1,479,445**	1,265,000	1,184,642	1,478,889	1,553,875
Total liabilities	**(331,025)**	(235,445)	(382,915)	(580,879)	(599,987)
Minority interests	**(39,171)**	(23,188)	(45,237)	(49,651)	(55,343)
Equity attributable to equity holders of the Company	**1,109,249**	1,006,367	756,490	848,359	898,545

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's leasehold land and buildings were revalued at 31 March 2012. The revaluation resulted in a surplus over book values amounting to approximately HK$477,000, which has been credited directly to the assets revaluation reserve. 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.

INVESTMENT PROPERTIES

During the year, the Group had transferred the prepaid lease payments and property, plant and equipment to investment properties, these investment properties were valued at approximately HK$153 million as at 31 March 2012. These investment properties will be developed as the Group's self-built demonstration leasing project with the application of ground source energy.

SHARE CAPITAL

As at 31 March 2012, 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 during the year, together with the reasons therefore, are set out in notes 42 to the consolidated financial statements.

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 54(c) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES OF THE COMPANY

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 2012, the Company's reserve available for distribution amounted to HK$614.9 million (2011: 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 14% (2011: 21%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 5% (2011: 6%). Purchases from the Group's five largest suppliers accounted for approximately 30% (2011: 31%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15% (2011: 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 (Resigned on 24 April 2012)
Mr. Soo Kim Fui Jeffrey (Resigned on 15 October 2011)

Non-executive directors:
Ms. Luk Hoi Man (Appointed on 21 March 2012)
Mr. Fu Hui Zhong (Resigned on 24 April 2012)

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Chow Wan Hoi Paul
Mr. Wu Desheng (Appointed on 21 March 2012)
Mr. Yau Kiam Fee (Appointed on 10 August 2011 and resigned on 1 February 2012)
Ms. Chan Man Kuen Laura (Retired on 10 August 2011)

Note: In accordance with article 87 of the Company's articles of association, Ms. Luk Hoi Man and Mr. Jia Wenzeng will retire, and being eligible, offer themselves 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 OF SIGNIFICANCE

Save as disclosed in notes 14 and 52 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 2012, 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

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	Capacity	Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
Ms. Chan Wai Kay Katherine *(Note 1)*	Beneficial owner	34,000,000 (L)	1.65%	17,000,000 (L)		
	Interest of spouse	10,074,000 (L)	0.49%	–	61,074,000 (L)	2.96%
Mr. Xu Shengheng *(Note 2)*	Beneficial owner	608,319,000 (L)	29.45%	11,600,000 (L)	620,621,000 (L)	30.05%
	Beneficial owner	608,300,000 (S)	29.45%	–	608,300,000 (S)	29.45%
	Interest of spouse	702,000 (L)	0.03%	–		
Ms. Luk Hoi Man *(Note 3)*	Beneficial owner	702,000 (L)	0.03%	–		
	Interest of spouse	608,319,000 (L)	29.45%	11,600,000 (L)	620,621,000 (L)	30.05%
	Interest of spouse	608,300,000 (S)	29.45%		608,300,000 (S)	29.45%
Mr. Wu Shu Min* *(Note 4)*	Beneficial owner	36,505,750 (L)	1.77%	11,600,000 (L)	48,105,750 (L)	2.33%

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

** Mr. Wu Shu Min resigned as executive director of the Company on 24 April 2012.*

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 34,000,000 shares and 17,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section 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. Xu Shengheng ("Mr. Xu") is interested in 608,319,000 Shares and 11,600,000 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. 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.

3. 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 11,600,000 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 11,600,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

4. Mr. Wu Shu Min is interested in 36,505,750 Shares and 11,600,000 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.

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 and became unconditional on 30 November 2001. The Previous Scheme was subsequently terminated on 7 August 2010 and all options granted but remain unexercised under the Previous Scheme have lapsed on 21 December 2011.

(ii) The Share Option Plan

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Plan") for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option 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 Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 31 March 2012, the following directors of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 March 2012
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. Fu Hui Zhong*	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
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

* *Both Mr. Wu Shu Min and Mr. Fu Hui Zhong resigned as directors of the Company on 24 April 2012.*

Save as disclosed above, as at 31 March 2012, 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in note 50 to the consolidated financial statements in respect of the share option plan, 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 PLAN

The detailed disclosures relating to the Company's share option plan are set out in note 50 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 2012, 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$0.01 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**
Financial International Holdings Ltd. *(Note)*	Beneficial owner	125,000,000 (L)	6.05%	–	125,000,000	6.05%
Ms. Cheung Kwan *(Note)*	Interest of controlled corporation	125,000,000 (L)	6.05%	–	125,000,000	6.05%

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

Note: Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 125,000,000 Shares.

Save as disclosed above, as at 31 March 2012, 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.

Report of the Directors

CONNECTED TRANSACTIONS

Details of the significant related party transactions of the Group are set out in note 52 to the consolidated financial statements.

REMUNERATION POLICY

The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Board upon the recommendation by Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option plan as an incentive to the Directors and eligible employees. Details of the share option plan are set out in note 50 to the consolidated financial statements of this report.

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 the 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), Mr. Chow Wan Hoi Paul and Mr. Wu Desheng. The Audit Committee has reviewed the Group's audited annual results for the year ended 31 March 2012 and has provided advice and comments thereon. The Audit Committee held five 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after reporting period of the Group are set out in note 56 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 March 2012 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 and on behalf of the Board

Chan Wai Kay Katherine
Chairman

Hong Kong, 28 June 2012

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 2012 (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 2012, the Board comprised of eight Directors including three executive Directors, namely Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng and Mr. Wu Shu Min, two non-executive Directors, namely Mr. Fu Hui Zhong and Ms. Luk Hoi Man and three independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Ms. Wu Desheng. However Mr. Wu Shu Min and Mr. Fu Hui Zhong resigned as executive Director and non-executive Director respectively on 24 April 2012. Ms. Chan Wai Kay Katherine is the Chairman of the Board and Mr. Xu Shengheng is the chief executive officer of the Company.

After the resignation of Mr. Yau Kiam Fee as independent non-executive director on 1 February 2012, the Company has failed to comply with the Rule 5.05(1) of the GEM Listing Rules. The Company has re-complied with the Rule 5.05(1) of the GEM Listing Rules on 21 March 2012 by the appointment of Mr. Wu Desheng as independent non-executive director.

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, Remuneration Committee and Nomination Committee.

According to the Articles of Associations 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 except that Ms. Luk Hoi Man is the wife of Mr. Xu Shengheng.

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 2012, a total of fourteen 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 2012, fourteen 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	14/14	N/A	N/A
Mr. Xu Shengheng	13/14	N/A	N/A
Mr. Wu Shu Min (Resigned on 24 April 2012)	13/14	N/A	N/A
Mr. Soo Kim Fui Jeffrey (Resigned on 15 October 2011)	7/14	2/5	N/A
Non-executive Directors			
Ms. Luk Hoi Man (Appointed on 21 March 2012)	0/14	N/A	N/A
Mr. Fu Hui Zhong (Resigned on 24 April 2012)	10/14	N/A	N/A
Independent non-executive Directors			
Mr. Jia Wenzeng	10/14	5/5	2/2
Mr. Chow Wan Hoi Paul	10/14	5/5	2/2
Mr. Wu Desheng (Appointed on 21 March 2012)	0/14	1/5	0/2
Mr. Yau Kiam Fee (Appointed on 10 August 2011 and resigned on 1 February 2012)	1/14	1/5	0/2
Ms. Chan Man Kuen Laura (Retired on 10 August 2011)	3/14	1/5	0/2

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 2012, 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 Ms. Luk Hoi Man, the non-executive Director, Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Mr. Wu Desheng, 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 Mr. Chow Wan Hoi Paul (chairman of remuneration committee), Mr. Jia Wenzeng and Mr. Wu Desheng.

During the Review period, two meetings were held by the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was formed by the Company on 21 March 2012 with specific written terms of reference which has been adopted by the Company are consistent with the requirements of the Code. The nomination committee comprises Ms. Chan Wai Kay Katherine (Chairman of the nomination committee) and the three independent non-executive Directors of the Company, namely Mr. Jia Wenzeng, Mr. Chow Wan Hoi Paul and Mr. Wu Desheng.

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

AUDITORS' REMUNERATION

The audit works of the Group for the year ended 31 March 2012 were performed by SHINEWING (HK) CPA Limited. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the Review Period are set out below:

	Fee paid/payable	
Services rendered	**2012**	2011
	HK$'000	*HK$'000*
Audit services	**1,390**	1,350
Non-audit services	**120**	250
Total fee paid/payable for the year	**1,510**	1,600

AUDIT COMMITTEE

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

After the resignation of Mr. Yau Kiam Fee as a member of audit committee on 1 February 2012, the audit committee only consisted of two independent non-executive Directors of the Company, namely Mr. Jia Wenzeng and Mr. Chow Wan Hoi Paul. Since then, the Company has failed to comply with the minimum number of three members for the audit committee as required under Rule 5.28 of the GEM Listing Rules. This non-compliance was rectified when appointment of Mr. Wu Desheng as audit committee member on 21 March 2012.

As at 31 March 2012, the audit committee comprises Mr. Jia Wenzeng (chairman of the audit committee), Mr. Chow Wan Hoi Paul and Mr. Wu Desheng.

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, five 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.

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

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

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 March 2011, which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified due to limitations of audit scope related to the carrying value of the disposed group and the gain on disposal of subsidiaries as recorded, details of which are set out in our audit report dated 29 June 2011. Any adjustments to the figures might have a consequential effect on the profit and cash flows of the Group and the related disclosures in the notes to the consolidated financial statements for the year ended 31 March 2011.

Qualified opinion arising from limitation of audit scope on corresponding figures for the year ended 31 March 2011

In our opinion, except for the possible effects of any adjustments or disclosures that might have been determined to be necessary had we been able to obtain sufficient evidence concerning the corresponding figures as mentioned in the basis for qualified opinion paragraph above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2012 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.

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 2012, 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.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The disclosure of the Group's information in a reasonable and time manner by the Board is to facilitate the shareholders as well as the investors to have better understanding in relation to the business performance, operations and strategies of the Group. Through our website which allow the Company's potential and existing investors as well as the public to assess and acquire the up-to-date company and financial information.

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 110, which comprise the consolidated statement of financial position as at 31 March 2012, 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 information.

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 paragraph, 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

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 March 2011, which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified due to limitations of audit scope related to the carrying value of the disposed group and the gain on disposal of subsidiaries as recorded, details of which are set out in our audit report dated 29 June 2011. Any adjustments to the figures might have a consequential effect on the profit and cash flows of the Group and the related disclosures in the notes to the consolidated financial statements for the year ended 31 March 2011.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE ON CORRESPONDING FIGURES FOR THE YEAR ENDED 31 MARCH 2011

In our opinion, except for the possible effects of any adjustments or disclosures that might have been determined to be necessary had we been able to obtain sufficient evidence concerning the corresponding figures as mentioned in the basis for qualified opinion paragraph above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2012 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
28 June 2012

Consolidated Income Statement

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations			
Turnover	7	**318,079**	322,211
Revenue	8	**318,079**	322,211
Cost of sales		**(171,279)**	(197,026)
Gross profit		**146,800**	125,185
Other income	9	**18,809**	2,758
Selling and distribution expenses		**(9,236)**	(11,409)
Administrative expenses		**(67,739)**	(64,016)
Other operating expenses		**(354)**	(266)
Allowance for doubtful debts		**(4,095)**	(190)
Reversal of allowance for doubtful debts		**4,485**	3,955
Profit from operations		**88,670**	56,017
Fair value changes on investment properties		**22,685**	–
Share of results of associates		**(3,852)**	371
Gain on cancellation of convertible notes		**–**	5,049
Gain on disposal of subsidiaries		**–**	5,766
Gain on deemed disposal of a subsidiary		**–**	1,336
Gain (loss) on deregistration of subsidiaries		**669**	(128)
Share-based payments		**(8,992)**	(22,150)
Finance costs	10	**(925)**	(7,486)
Profit before tax		**98,255**	38,775
Income tax expense	11	**(34,862)**	(15,004)
Profit for the year from continuing operations	13	**63,393**	23,771
Discontinued operation			
Profit for the year from discontinued operation	12	**–**	12,532
Profit for the year		**63,393**	36,303
Profit for the year attributable to:			
Owners of the Company			
– from continuing operations		**54,234**	21,881
– from discontinued operation		**–**	12,532
Profit for the year attributable to owners of the Company		**54,234**	34,413
Non-controlling interests from continuing operations			
Profit for the year attributable non-controlling interests		**9,159**	1,890
		63,393	36,303
Earnings per share	16		
From continuing and discontinued operations			
Basic (HK cents)		**2.63**	1.88
Diluted (HK cents)		**2.62**	1.82
From continuing operations			
Basic (HK cents)		**2.63**	1.20
Diluted (HK cents)		**2.62**	1.16

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	2012	2011
	HK$'000	*HK$'000*
Profit for the year	**63,393**	36,303
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**16,282**	26,632
Share of other comprehensive income of associates	**1,351**	–
Fair value change on the transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	**32,005**	–
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	**(7,994)**	–
Gain on leasehold land and building revaluation	**477**	–
Reclassification adjustments for the cumulative loss transferred to profit or loss:		
– release of exchange translation reserve upon disposal of subsidiaries	**–**	(6,218)
– release of exchange translation reserve upon deemed disposal of a subsidiary	**–**	(5,267)
– release of exchange translation reserve upon deregistration of subsidiaries	**(1,203)**	(341)
Other comprehensive income for the year	**40,918**	14,806
Total comprehensive income for the year	**104,311**	51,109
Total comprehensive income attributable to:		
Owners of the Company	**93,890**	48,358
Non-controlling interests	**10,421**	2,751
	104,311	51,109

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	**34,638**	50,791
Prepaid lease payments	18	**–**	26,926
Investment properties	19	**152,592**	–
Deposit paid for acquisition of land use rights	20	**61,664**	59,455
Goodwill	21	**445,850**	444,551
Intangible assets	22	**971**	2,186
Interests in associates	23	**62,896**	69,363
Available-for-sale investments	24	**493**	476
Other receivable	25	**1,865**	7,486
Deferred tax assets	26	**21,690**	21,570
		782,659	682,804
Current assets			
Inventories	27	**20,779**	25,019
Trade and retention receivables	28	**56,456**	71,476
Prepayments, deposits and other receivables	29	**61,782**	56,451
Prepaid lease payments	18	**–**	553
Amounts due from customers for contract work	30	**413,690**	277,679
Amounts due from non-controlling shareholders	31	**–**	3,092
Amount due from an associate	37	**6,048**	–
Held-for-trading financial assets	32	**25**	50
Restricted bank balances	33	**–**	1,278
Short-term bank deposits	33	**2,467**	2,378
Cash held at non-bank financial institutions	33	**–**	692
Bank balances and cash	33	**135,539**	143,528
		696,786	582,196
Current liabilities			
Trade payables	34	**103,658**	74,907
Accrued liabilities, deposits received and other payables	35	**70,445**	89,980
Amounts due to customers for contract work	30	**15,440**	9,675
Amounts due to non-controlling shareholders	36	**12,376**	10,270
Amount due to associates	37	**15,727**	29,334
Bank loan	38	**2,467**	–
Tax payable		**49,896**	21,279
		270,009	235,445
Net current assets		**426,777**	346,751
Total assets less current liabilities		**1,209,436**	1,029,555

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Receipt in advance	39	**32,408**	–
Deferred income	41	**14,794**	–
Deferred tax liabilities	26	**13,814**	–
		61,016	–
Net assets		**1,148,420**	1,029,555
Capital and reserves			
Share capital	42	**161,092**	644,368
Reserves		**948,157**	361,999
Equity attributable to owners of the Company		**1,109,249**	1,006,367
Non-controlling interests		**39,171**	23,188
Total equity		**1,148,420**	1,029,555

The consolidated financial statements on pages 26 to 110 were approved and authorised for issue by the board of directors on 28 June 2012 and are signed on its behalf by:

Chan Wai Kay Katherine
Director

Xu Shengheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Statutory reserve *HK$'000* *(Note b)*	Convertible notes reserve *HK$'000*	Special reserve *HK$'000* *(Note c)*	Capital reserve *HK$'000* *(Note d)*	Share-based payment reserve *HK$'000*	Exchange translation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 April 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												
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	25,771	–	25,771	861	26,632
Reclassification adjustments for the cumulative loss transferred to profit or loss:												
– release of exchange translation reserve upon disposal of subsidiaries	–	–	–	–	–	–	–	(6,218)	–	(6,218)	–	(6,218)
– release of exchange translation reserve upon deemed disposal of a subsidiary	–	–	–	–	–	–	–	(5,267)	–	(5,267)	–	(5,267)
– release of exchange translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	(341)	–	(341)	–	(341)
Total 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 42(b))*	14,882	9,788	–	–	–	–	(8,910)	–	–	15,760	–	15,760
Issue of share upon conversion of convertible notes *(Note 42(c))*	26,871	95,384	–	(44,537)	–	–	–	–	–	77,718	–	77,718
Issue of shares upon share subscription *(Note 42(d))*	73,228	1,502	–	–	–	–	–	–	–	74,730	–	74,730
Release upon cancellation of convertible notes *(Note 40(a))*	–	–	–	(24,900)	–	–	–	–	5,520	(19,380)	–	(19,380)
Release upon waiver of convertible notes *(Note 40(b))*	–	–	–	(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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to owners of the Company												
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note a)	*(Note b)*			*(Note c)*	*(Note d)*						
At 1 April 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
Profit for the year	–	–	–	–	–	–	–	–	–	54,234	54,234	9,159	63,393
Other comprehensive income for the year													
Fair value change on transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	–	–	–	32,005	–	–	–	–	–	–	32,005	–	32,005
Gain on leasehold land and building revaluation	–	–	–	477	–	–	–	–	–	–	477	–	477
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	1,351	–	1,351	–	1,351
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	–	–	–	(7,994)	–	–	–	–	–	–	(7,994)	–	(7,994)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	15,020	–	15,020	1,262	16,282
Reclassification adjustments for the cumulative loss transferred to profit or loss:													
– release of exchange translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	–	(1,203)	–	(1,203)	–	(1,203)
Total other comprehensive income for the year	–	–	–	24,488	–	–	–	–	15,168	–	39,656	1,262	40,918
Total comprehensive income for the year	–	–	–	24,488	–	–	–	–	15,168	54,234	93,890	10,421	104,311
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	8,067	8,067
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(2,505)	(2,505)
Recognition of share-based payment expenses	–	–	–	–	–	–	–	8,992	–	–	8,992	–	8,992
Reduction of issued share capital *(note 42(a))*	(483,276)	–	–	–	483,276	–	–	–	–	–	–	–	–
Utilisation of the contributed surplus *(note 42(a))*	–	–	–	–	(328,895)	–	–	–	–	328,895	–	–	–
Lapse of share option	–	–	–	–	–	–	–	(18,767)	–	18,767	–	–	–
Appropriations	–	–	117	–	–	–	–	–	–	(117)	–	–	–
At 31 March 2012	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	29,705	35,826	46,464	1,109,249	39,171	1,148,420

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 40(b).

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	2012	2011
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax from continuing operations	**98,255**	38,775
Profit before tax from discontinued operation	**–**	12,532
	98,255	51,307
Adjustments for:		
Allowance for doubtful debts	**4,095**	190
Government grants income	**(10,343)**	(1,109)
Amortisation of intangible assets	**1,283**	1,249
Change in fair value of held-for-trading financial assets	**25**	6
Depreciation of property, plant and equipment	**3,337**	3,109
Release of prepaid lease payments	**284**	184
Finance costs	**925**	7,486
Gain on cancellation of convertible notes	**–**	(5,049)
Gain on disposal of subsidiaries	**–**	(21,667)
Gain on deemed disposal of a subsidiary	**–**	(1,336)
Bank interest income	**(746)**	(446)
Imputed interests income on other receivable	**(699)**	(961)
Imputed interest income on receipt in advance	**(5,424)**	–
Dividend income	**–**	(1,608)
Loss on disposal of property, plant and equipment	**131**	–
Written off of property, plant and equipment	**–**	44
(Gain) loss on deregistration of subsidiaries	**(669)**	128
Loss on disposal of an associate	**–**	12
Reversal of allowance for doubtful debts	**(4,485)**	(3,955)
Share-based payments	**8,992**	22,150
Share of results of associates	**3,852**	(371)
Fair value changes on investment properties	**(22,685)**	–
Operating cash flows before movements in working capital	**76,128**	49,363
Decrease in inventories	**5,408**	21,939
Decrease (increase) in trade and retention receivables	**18,388**	(4,661)
Decrease in prepayments, deposits and other receivables	**9,521**	34,034
Increase in amounts due from customers for contract work	**(124,865)**	(109,732)
Decrease in cash held at non-bank financial institutions	**692**	–
Increase in trade payables	**23,178**	1,683
(Decrease) increase in accrued liabilities, deposits received and other payables	**(23,849)**	22,897
Increase in receipt in advance	**36,651**	–
Increase (decrease) in amounts due to customers for contract work	**5,337**	(7,646)
Cash generated from operations	**26,589**	7,877
Tax reserve certificate purchased	**–**	(899)
PRC Enterprise Income Tax ("PRC EIT") paid	**(1,458)**	(1,102)
NET CASH FROM OPERATING ACTIVITIES	**25,131**	5,876

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Increase in short-term bank deposits		–	(2,378)
Decrease (increase) in restricted bank balances		1,278	(1,278)
Purchase of property, plant and equipment		(16,634)	(34,322)
Net cash inflow from acquisition of a subsidiary	43	1,795	–
Net cash inflow from acquisition of assets through acquisition of a subsidiary	44	378	–
Development cost paid for investment properties under construction or development		(56,752)	–
Dividends received from an associate		3,966	–
Net cash inflow from disposal of subsidiaries	45	–	13,885
Repayment from non-controlling shareholders		432	1,692
Proceeds from disposal of property, plant and equipment		49	–
Proceeds from disposal of an associate		–	886
Proceeds from disposal of available-for-sale investments		–	35
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	47	–	(3,402)
Net cash outflow from deemed disposal of a subsidiary	46	–	(95)
Dividends received from available-for-sales investment		–	1,608
Interest received		746	446
NET CASH USED IN INVESTING ACTIVITIES		(64,742)	(74,359)
FINANCING ACTIVITIES			
New bank loan raised		2,444	–
Government grants received		24,999	623
Proceeds from exercise of share options		–	15,760
Repayment to an investee company		–	(1,317)
Advance from non-controlling shareholders		1,644	464
Proceeds from issue of subscription shares		–	74,730
Interest paid		(48)	–
Repayment to an associate		(260)	(18,880)
NET CASH FROM FINANCING ACTIVITIES		28,779	71,380
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(10,832)	2,897
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		143,528	134,925
Effect of foreign exchange rate changes		2,843	5,706
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		135,539	143,528

1. GENERAL

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 55 and 23 respectively.

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 Company and its subsidiaries (collectively referred to as the "Group") has adopted the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to Hong Kong (International Financial Reporting Interpretation Committee) ("HK (IFRIC)") – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as explained below, the adoption of these new and revised standards has had no material impact on the Group's performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

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

Amendments to HKFRS 3 Business Combination (as part of improvements of HKFRSs issued in 2010)

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other standards.

Such amendments to HKFRS 3 have been applied in the current year and had no effect on the consolidated financial statements of the Group for the current year.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS	Annual Improvements 2009 – 2011 Cycle[4]
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
	First-time Adoption of HKFRSs – Government Loans[4]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[4]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[6]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosures of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[5]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[4]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2012.
[3] Effective for annual periods beginning on or after 1 July 2012.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2014.
[6] Effective for annual periods beginning on or after 1 January 2015.

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

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 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 enters into any types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

To date, the Group has not entered into transactions involving offsetting of financial assets and financial liabilities. However, if the Group enters into any types of offsetting of financial assets and financial liabilities in the future, disclosures regarding the offsetting may be affected.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of HKFRS 9 are described as follows:

– 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 Financial Instruments *(Continued)*

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the 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 presented 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 presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company are in the process of making an assessment of the potential impact of HKFRS 9 and the directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirement of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (Standing Interpretations Committee) ("SIC") – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 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 may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipated that the application of other new and revised standards, amendments or interpretation would have no material impact on the results and the financial positions of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for leasehold building, investment properties 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 HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Investment in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss on the statement of financial position of the Company.

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 (effective from 1 January 2010 onwards).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the 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 whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss 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 capitalized is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group 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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 associates 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services 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.

Revenue recognition for rental income is set out in the section headed “Leasing” 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 recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

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

Property, plant and equipment

Property, plant and equipment including leasehold land classified as finance lease and building held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Any revaluation increase arising on revaluation of leasehold land classified as finance lease 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 recognised so as to write off the cost or fair value of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including investment properties under construction for such purposes.

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

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

Fair value measurement on investment properties under construction is only applied if the fair value is considered to be reliably measurable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference at that date between the carrying amount and the fair value of the property is accounted for in assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On subsequent disposal of the investment property, the assets revaluation reserve included in equity may be transferred to accumulated losses. The transfer from assets revaluation reserve to retained profits is not made through profit or loss. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the consolidated income statement.

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 relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange translation reserve.

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 equity under the heading of the exchange translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised 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. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("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
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets and is included in turnover in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 32.

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, amount due from an associate, 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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 considered to be 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, amounts due from non-controlling shareholders and amount due from an associate, 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.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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, other receivables, amounts due from non-controlling shareholders and amount due from an associate 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 and retention receivable, other receivables, amounts due from non-controlling shreholders and amount due from an associate are 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 in which the impairment takes place.

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 through profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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, amounts due to associates and bank loan 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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. 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.

When 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.

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.

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)*

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. CRITICAL ACCOUNTING JUDGEMENTS AND 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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the entity's accounting policies

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgement is made on an individual property basis to determine whether the property qualify as an investment property.

Key sources of estimation uncertainty

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

Investment properties

The fair values of investment properties under construction or development that are measured using the fair value model are determined based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation reflect market condition. The basis of valuation is disclosed in note 19. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated income statement.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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$86,760,000 as at 31 March 2012 (2011: HK$86,273,000). 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.

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 2012, the carrying amount of property, plant and equipment is approximately HK$34,638,000 (net of accumulated depreciation and impairment loss of HK$13,954,000) (2011: carrying amount of approximately HK$50,791,000 (net of accumulated depreciation and impairment loss of approximately HK$10,852,000)). As at 31 March 2011, the carrying amount of prepaid lease payments is approximately HK$27,479,000. No impairment loss were recognised for the years ended 31 March 2012 and 2011.

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 2012, the carrying amount of goodwill is approximately HK$445,850,000, net of accumulated impairment loss of approximately of nil (2011: carrying amount of approximately HK$444,551,000, net of accumulated impairment loss of nil). No impairment loss were recognised for the years ended 31 March 2012 and 2011.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

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 2012, the carrying amounts of inventories was approximately HK$20,779,000 (2011: HK$25,019,000). No impairment loss were recognised for the years ended 31 March 2012 and 2011.

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 years ended 31 March 2012 and 2011.

Estimated impairment of trade and retention receivables and other receivables

The Group performs ongoing credit evaluations of these receivables and adjusts credit limits based on payment history and the customer's and borrower's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from these receivables and maintains a provision for estimated credit losses based upon its historical experience. As at 31 March 2012, the carrying amount of trade and retention receivables are approximately HK$56,456,000, net of allowance for doubtful debts of approximately HK$8,479,000 (2011: the carrying amount of trade and retention receivables are of approximately HK$71,476,000, net of allowance for doubtful debts of approximately HK$8,568,000) and other receivables are approximately HK$27,388,000, net of allowance for doubtful debts of approximately HK$2,269,000 (2011: the carrying amount of other receivables were of approximately HK23,773,000, net of allowance for doubt debts of approximately HK$2,269,000) respectively. No impairment loss was recognised for the years ended 31 March 2012 and 2011.

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 payments 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.

Estimated impairment of interests in associates

The impairment review of interests in associates required management's judgement particularly in assessing: (i) whether an event has occurred that may indicate that the related carrying value of interests may not be recoverable; and (ii) whether the carrying value of the interests can be supported by the recoverable amount. Changing the estimates used by management in assessing impairment could materially affect the recoverable amount used in the impairment test and as a result affect the Group's consolidated financial position and results of operations. As at 31 March 2012, the carrying value of interests in associates is approximately HK$62,896,000 (2011: HK$69,363,000). No impairment loss was recognised for the years ended 31 March 2012 and 2011.

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 net borrowings, which includes bank loan and cash and cash equivalents disclosed in note 38 and 33 respectively, 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 issuance of new shares, raising of new debts or repayment of existing debts.

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

The Group 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:

	2012	2011
	HK$'000	*HK$'000*
Total borrowings *(note i)*	**2,467**	–
Equity *(note ii)*	**1,109,249**	1,006,367
Gearing ratio	**0.2%**	N/A

i) Total borrowings comprise the bank loan.

ii) Equity includes all capital and reserves attributable to owners of the Company.

6. FINANCIAL INSTRUMENTS

6(a) Categories of financial instruments

	2012	2011
	HK$'000	*HK$'000*
Financial assets		
FVPTL – held for trading financial assets	**25**	50
Loans and receivables (including cash and cash equivalents)	**250,329**	274,870
Available-for-sale investments	**493**	476
Financial liabilities		
Amortised cost	**190,557**	146,552

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, amount due from an associate, 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 associates and bank loan. 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**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**2,348**	1,073	–	–
Bank balances and cash	**54,393**	62,336	–	–
Accrued liabilities and other payables	–	–	**3,871**	1,350
Total exposure	**56,741**	63,409	**3,871**	1,350

6. FINANCIAL INSTRUMENTS *(Continued)*

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% (2011: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2011: 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% (2011: 5%) change in foreign currency rates. A positive number below indicates an increase in profit after tax for the year where RMB strengthen 5% (2011: 5%) against the relevant currency. For a 5% (2011: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit after tax and the balances below would be negative.

	2012	2011
	HK$'000	*HK$'000*
HK$	**(1,983)**	(2,327)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank loan. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated loan.

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2012 would decrease/increase by approximately HK$9,000. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loan.

No sensitivity analysis has been prepared for the year ended 31 March 2011 since the Group did not exposed to any interest rate risk from bank loan.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. 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% (2011: 5%) higher/lower, profit after tax for the year ended 31 March 2012 would increase/decrease by approximately HK$1,000 (2011: approximately HK$2,000) as a result of the changes in fair value of held-for-trading financial assets.

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

Credit risk

As at 31 March 2012, 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% (2011: 100%) of the total trade receivables as at 31 March 2012.

The Group has a concentration of credit risk as 12% and 38% (2011: 14% and 22%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 March 2012 within the shallow ground energy business segment.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

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

Liquidity tables

	Within 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2012					
Non-derivative financial liabilities					
Trade payables	**103,658**	–	–	**103,658**	**103,658**
Accrued liabilities and other payables	**56,329**	–	–	**56,329**	**56,329**
Amounts due to non-controlling shareholders	**12,376**	–	–	**12,376**	**12,376**
Amount due to associates	**15,727**	–	–	**15,727**	**15,727**
Bank loan	**2,467**	–	–	**2,467**	**2,467**
	190,557	–	–	**190,557**	**190,557**

	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

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 consolidated 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 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
Held-for-trading financial assets	**25**	**–**	**–**	**25**

	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

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 rental income received from investment properties. An analysis of the Group's turnover for the year from continuing operations is as follows:

	2012	2011
	HK$'000	*HK$'000*
Sales and installation of shallow ground energy utilisation system	**313,127**	317,843
Maintenance services for shallow ground energy utilisation system	**445**	2,760
Rental income *(Note)*	**4,507**	–
Dividend income	**–**	1,608
	318,079	322,211

Note: An analysis of the Group's net rental income is as follows:

	2012	2011
	HK$'000	*HK$'000*
Gross rental income	**4,507**	–
Less: direct operating expenses from investment properties that generated rental income during the year	**(611)**	–
Net rental income	**3,896**	–

8. SEGMENT INFORMATION

The Group's reportable and 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 ground energy utilisation system;

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

(c) Properties investments segment – investment in properties for its potential rental income; and

(d) Other segment – provision and sales of telecommunications network infrastructure solutions and network management solutions and have no operation for the year ended 31 March 2012.

On 13 September 2010, the Group completed the disposal of its wholly-owned subsidiary, IIN Network Technology Limited and its subsidiaries ("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 discontinued operations, which are described in more detail in note 12.

Properties investments segments was the new reportable and operating segment for the year ended 31 March 2012.

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 and operating segment.

For the year ended 31 March 2012
Continuing operations

	Shallow ground energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment *HK$'000*	Total *HK$'000*
REVENUE				
External sales	**313,572**	**–**	**4,507**	**318,079**
Segment results	**125,549**	**(2,027)**	**24,924**	**148,446**
Share of results of associates				**(3,852)**
Unallocated other income				**2,057**
Unallocated expenses				**(48,348)**
Finance costs				**(48)**
Profit before tax (continuing operations)				**98,255**

For the year ended 31 March 2011
Continuing operations

	Shallow ground energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE					
External sales	320,603	1,608	–	–	322,211
Segment results	77,578	(5,805)	–	(702)	71,071
Share of results of associates					371
Unallocated other income					6,319
Unallocated expenses					(38,986)
Profit before tax (continuing operations)					38,775

The accounting policies of the operating 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, gain (loss) on deregistration of subsidiaries, central administration costs, share-based payments and interest on bank loan. 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 and operating segment:

Segment assets

	2012	2011
	HK$'000	*HK$'000*
Shallow ground energy	**1,107,203**	1,005,345
Securities investment and trading	**3,084**	9,064
Properties investment	**138,321**	–
Others	**–**	1,204
Total segment assets	**1,248,608**	1,015,613
Unallocated corporate assets	**230,837**	249,387
Consolidated total assets	**1,479,445**	1,265,000

Segment liabilities

	2012	2011
	HK$'000	*HK$'000*
Shallow ground energy	**201,783**	170,663
Securities investment and trading	**2,389**	1,557
Properties investment	**46,387**	–
Others	**–**	2,342
Total segment liabilities	**250,559**	174,562
Unallocated corporate liabilities	**80,466**	60,883
Consolidated total liabilities	**331,025**	235,445

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

- all assets are allocated to operating segments other than interests in associates, deferred tax assets, 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 operating segments other than amounts due to non-controlling shareholders, amount due to associates, bank loan, tax payable and unallocated corporate liabilities.

8. SEGMENT INFORMATION *(Continued)*

Other segment information
For the year ended 31 March 2012
Continuing operations

	Shallow ground energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets *(note)*	**8,658**	**1,411**	**6,977**	**17,046**
Development cost paid to investment properties under construction	–	–	**56,752**	**56,752**
Reversal of allowance for doubtful debts	**(4,485)**	–	–	**(4,485)**
Depreciation and amortisation	**4,904**	–	–	**4,904**
Allowance for doubtful debts	**4,095**	–	–	**4,095**
Fair-value changes on held-for-trading financial assets	–	**25**	–	**25**
Imputed interest expense on receipt in advance	**877**	–	–	**877**
Loss on disposal of property, plant and equipments	**131**	–	–	**131**
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	**62,896**	–	–	**62,896**
Share of results of associates	**3,852**	–	–	**3,852**
Interest income	**(746)**	–	–	**(746)**
Interest expenses	**48**	–	–	**48**
Income tax expense	**29,191**	–	**5,671**	**34,862**

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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 of plant and equipment	44	–	–	44
Loss on deregistration of subsidiaries	128	–	–	128
Imputed interest expense on convertible notes	7,486	–	–	7,486
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)
Income tax expense	15,004	–	–	15,004

Note: Non-current assets excluded those relating to discontinued operation and excluded goodwill, investment properties, interests 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.

Information about major customers

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the years ended 31 March 2012 and 2011.

9. OTHER INCOME

	2012 *HK$'000*	2011 *HK$'000*
Continuing operations		
Bank interest income	**746**	439
Government grants *(Note a)*	**10,343**	1,109
Sale of raw materials	**797**	–
Imputed interest income on other receivable	**699**	961
Imputed interest income on receipt in advance	**5,424**	–
Others	**800**	249
	18,809	2,758

Note a: Included in the amount of government grants recognised during the year ended 31 March 2012, approximately HK$3,497,000 (2011: HK$623,000) were received in respect of certain research projects of the Group and the Group fulfilled the relevant granting criteria which made the Group to recognise the government grants recognised as other income immediately for the year. Approximately HK$6,846,000 (2011: HK$486,000) were government grants utilised during the year (Note 41).

10. FINANCE COSTS

	2012 *HK$'000*	2011 *HK$'000*
Continuing operations		
Interest on bank loan wholly repayable within five years	**48**	–
Imputed interest expense on receipt in advance	**877**	–
Imputed interest expense on convertible notes	**–**	7,486
	925	7,486

11. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Current tax:		
PRC EIT	**28,871**	14,063
Under provision in prior years:		
Hong Kong Profits Tax	**223**	–
Deferred tax *(Note 26)*	**5,768**	941
	34,862	15,004

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 years ended 31 March 2012 and 31 March 2011.

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, certain foreign investment subsidiaries was recognised as high technology enterprise in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 March 2012. (2011: 15%).

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 2012.

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

	2012	2011
	HK$'000	*HK$'000*
Profit before tax (from continuing operations)	**98,255**	38,775
Tax at the domestic income tax rate	**27,197**	13,109
Under-provision in prior years	**223**	–
Tax effect of share of results of associates	**912**	(15)
Tax effect of expenses not deductible for tax purpose	**10,022**	6,002
Tax effect of income not taxable for tax purpose	**(657)**	(1,447)
Income tax on concessionary rate	**(2,835)**	(2,645)
Tax expense for the year (relating to continuing operations)	**34,862**	15,004

12. DISCONTINUED OPERATION

During the year ended 31 March 2011, 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:

	2011
	HK$'000
Loss of environmental protection operation for the year	(3,369)
Gain on disposal of environmental protection operation *(Note 45(a))*	15,901
	12,532

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:

	2011
	HK$'000
Revenue	14,016
Cost of sales	(13,424)
Gross profit	592
Other income	493
Administrative expenses	(4,454)
Loss before tax	(3,369)
Income tax expense	–
Loss for the year	(3,369)

12. DISCONTINUED OPERATION *(Continued)*

Loss for the year from discontinued operation including the following:

	2011
	HK$'000
Bank interest income	(7)
Amortisation of deferred income on government grants	(486)
Cost of inventories sold	13,424
Depreciation of property, plant and equipment	461
Staff costs	800
Research costs (included in administrative expenses)	1,886
Lease payments under operating lease in respect of land and building	410

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 operating activities	1,049
Net cash used in investing activities	(844)
Net cash inflow	205

The carrying amounts of the assets and liabilities of IIN Network Technology Group at the date of disposal are disclosed in note 45(a).

13. PROFIT FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Continuing operations		
Staff costs, including directors' emoluments *(Note 14)*		
– Wages and salaries	**31,154**	26,745
– Retirement benefits scheme contributions	**3,641**	3,181
– Share-based payments	**8,992**	22,150
	43,787	52,076
Cost of inventories sold	**165,954**	181,998
Change in fair value of held-for-trading financial assets	**25**	6
Depreciation of property, plant and equipment	**3,337**	2,648
Amortisation of intangible assets	**1,283**	1,249
Release of prepaid lease payments	**284**	184
Auditor's remuneration	**1,588**	2,384
Lease payments under operating leases in respect of land and buildings	**7,681**	7,151
Written off of property, plant and equipment	**–**	44
Loss on disposal of an associate	**–**	12
Loss on disposal of property, plant and equipment	**131**	–
Research costs (included in administrative expenses)*	**5,148**	5,437

* *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 are as follows:

	For the year ended 31 March 2012				
	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	–	**1,908**	**12**	–	**1,920**
Mr. Xu Shengheng	–	**1,908**	**12**	–	**1,920**
Mr. Wu Shu Min *(Note 5)*	–	**1,920**	–	–	**1,920**
Mr. Soo Kim Fui, Jeffrey *(Note 4)*	–	**377**	–	–	**377**
Non-executive directors:					
Mr. Fu Hui Zhong *(Note 5)*	**240**	–	–	–	**240**
Ms. Luk Hoi Man *(Note 1)*	**7**	–	–	–	**7**
Independent non-executive directors:					
Ms. Chan Man Kuen, Laura *(Note 3)*	**43**	–	–	–	**43**
Mr. Chow Wan Hoi, Paul	**120**	–	–	–	**120**
Mr. Jia Wenzeng	**120**	–	–	–	**120**
Mr. Yau Kiam Fee *(Note 2)*	**57**	–	–	–	**57**
Mr. Wu Desheng *(Note 1)*	–	–	–	–	–
Total	**587**	**6,113**	**24**	–	**6,724**

	For the year ended 31 March 2011				
	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	–	1,908	12	3,194	5,114
Mr. Xu Shengheng	–	1,908	12	2,180	4,100
Mr. Wu Shu Min *(Note 5)*	–	1,920	–	2,180	4,100
Mr. Soo Kim Fui, Jeffrey *(Note 4)*	–	600	–	1,127	1,727
Non-executive directors:					
Mr. Fu Hui Zhong *(Note 5)*	240	–	–	752	992
Independent non-executive directors:					
Ms. Chan Man Kuen, Laura *(Note 3)*	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)*

Notes:

(1) Appointed on 21 March 2012

(2) Appointed on 10 August 2011 and resigned on 1 February 2012

(3) Retired on 10 August 2011

(4) Resigned on 15 October 2011

(5) Resigned on 24 April 2012

No director waived or agreed to waive any emoluments paid by the Company during the years ended 31 March 2012 and 31 March 2011.

During the years ended 31 March 2012 and 31 March 2011, 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.

(b) Employees

Of the five individuals with the highest emoluments in the Group, three (2011: four) were directors of the Company whose emoluments are included in the disclosures in note 14(a) above. The emoluments of the remaining two (2011: one) individual were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**875**	572
Retirement benefits scheme contributions	**45**	12
Share-based payment	**–**	846
	920	1,430

The emolument of the above employees was ranged from nil to HK$1,000,000 during the year ended 31 March 2012 (2011: ranged from HK$1,000,001 to HK$1,500,000).

During the years ended 31 March 2012 and 31 March 2011, 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 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

16. EARNINGS PER SHARE

From continuing and discontinued operation

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

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company and for the purpose of basic and diluted earnings per share	**54,234**	34,413

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,065,307**	1,828,837
Effect of dilutive potential ordinary shares:		
Share options	**2,001**	60,401
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,067,308**	1,889,238

16. EARNINGS PER SHARE *(Continued)*

From continuing operations

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

	2012	2011
	HK$'000	*HK$'000*
Profit for the year attributable to owners of the Company and for the purpose of basic earnings per share	**54,234**	34,413
Less: profit for the year from discontinued operation	–	12,532
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**54,234**	21,881

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,065,307**	1,828,837
Effect of dilutive potential ordinary shares:		
Share options	**2,001**	60,401
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,067,308**	1,889,238

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. The diluted earnings per share for the discontinued operations is HK$0.66 cents per share for the year ended 31 March 2011.

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 April 2010	–	5,343	22,890	2,702	11,732	14,589	16,182	73,438
Exchange realignment	–	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	7,502	–	–	–	–	–	–	7,502
	7,502	1,336	11,533	2,256	4,036	5,527	29,453	61,643
At 1 April 2011	**7,502**	**1,336**	**11,533**	**2,256**	**4,036**	**5,527**	**29,453**	**61,643**
Exchange realignment	**282**	**11**	**676**	**75**	**116**	**158**	**862**	**2,180**
Additions	**–**	**–**	**3,461**	**112**	**211**	**2,506**	**10,344**	**16,634**
Disposals	**–**	**–**	**(20,636)**	**–**	**–**	**(458)**	**–**	**(21,094)**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**68**	**344**	**–**	**412**
Revaluation	**327**	**–**	**–**	**–**	**–**	**–**	**–**	**327**
Transfer	**–**	**–**	**23,400**	**–**	**–**	**–**	**(23,400)**	**–**
Deregistration of subsidiaries	**–**	**–**	**–**	**(37)**	**(38)**	**–**	**–**	**(75)**
Transfer to investment property *(note 19)*	**–**	**–**	**–**	**–**	**–**	**–**	**(11,435)**	**(11,435)**
At 31 March 2012	**8,111**	**1,347**	**18,434**	**2,406**	**4,393**	**8,077**	**5,824**	**48,592**
Comprising								
At cost	**–**	**1,347**	**18,434**	**2,406**	**4,393**	**8,077**	**5,824**	**40,481**
At valuation	**8,111**	**–**	**–**	**–**	**–**	**–**	**–**	**8,111**
	8,111	**1,347**	**18,434**	**2,406**	**4,393**	**8,077**	**5,824**	**48,592**

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 April 2010	–	4,868	12,827	2,214	10,308	8,264	5,149	43,630
Exchange realignment	–	171	607	94	471	371	243	1,957
Provided 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
At 1 April 2011	**–**	**1,127**	**1,568**	**1,975**	**3,077**	**3,105**	**–**	**10,852**
Exchange realignment	**–**	**2**	**72**	**88**	**92**	**104**	**–**	**358**
Provided for the year	**150**	**65**	**1,150**	**277**	**357**	**1,338**	**–**	**3,337**
Eliminated on deregistration of subsidiaries	**–**	**–**	**–**	**(32)**	**(23)**	**–**	**–**	**(55)**
Eliminated on revaluation	**(150)**	**–**	**–**	**–**	**–**	**–**	**–**	**(150)**
Eliminated on disposal	**–**	**–**	**(86)**	**–**	**–**	**(302)**	**–**	**(388)**
At 31 March 2012	**–**	**1,194**	**2,704**	**2,308**	**3,503**	**4,245**	**–**	**13,954**
CARRYING VALUES								
At 31 March 2012	**8,111**	**153**	**15,730**	**98**	**890**	**3,832**	**5,824**	**34,638**
At 31 March 2011	**7,502**	**209**	**9,965**	**281**	**959**	**2,422**	**29,453**	**50,791**

The Group's leasehold land and building 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 their estimated residual values, over their estimated useful lives as follows:

Leasehold land and building	50 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

The leasehold land and building was valued on 31 March 2012 by the directors of the Company, on an open market value basis and the revalued amount approximate its carrying value as at 31 March 2012.

During the year ended 31 March 2012, the construction in progress of approximately HK$11,435,000 was transferred to investment properties.

If land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK$7,634,000 (2011: HK$7,502,000).

18. PREPAID LEASE PAYMENTS

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current asset	–	553
Non-current asset	–	26,926
	–	27,479

The Group's prepaid lease payments comprise:

	2012	2011
Medium-term lease outside Hong Kong	–	27,479

During the year ended 31 March 2012, the land of approximately HK$27,195,000 was transferred to investment properties.

19. INVESTMENT PROPERTIES

	Investment properties under construction or development at fair value	**Investment property under construction or development at cost**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2011	–	–	–
Development costs paid	31,188	25,564	56,752
Transfer from property, plant and equipment and prepaid lease payments *(Notes 17 and 18)*	38,739	–	38,739
Revaluation surplus at transfer dates from transferred property, plant and equipment and prepaid lease payments	32,005	–	32,005
Fair value gains recognised in the consolidated income statement	22,685	–	22,685
Exchange realignment	2,115	296	2,411
At 31 March 2012	126,732	25,860	152,592

The Group's investment properties are situated in the PRC and comprise:

	2012
	HK$'000
Medium-term lease	152,592

The fair values of investment properties under construction or development at 31 March 2012 and at dates of transfer from property, plant and equipment and prepaid lease payments have been arrived at on the basis of valuations carried out on those dates by Peak Vision Appraisals Limited, an independent professionally qualified valuers not connected to the Group.

19. INVESTMENT PROPERTIES *(Continued)*

For investment properties under construction or development that are measured at fair value, the valuations have been arrived at by reference to recent market price to similar land in the similar locations and conditions if the investment property under construction or development solely comprised of land; or assuming that the investment properties will be completed in accordance with the development proposals and the relevant approvals for the proposals have been obtained. The key inputs in the valuations include the market value of the completed investment properties, which are estimated with reference to sales evidence of similar properties in the nearest locality, with adjustments made to account for differences in locations and other factors specific to the respective properties based on the valuers' judgement. Costs of development are also taken into account including construction costs, finance costs and professional fees, as well as developer's profit margin which reflects the remaining risks associated with the development of the properties at the valuation date and the return that the developer would require for bringing them to completion status, which is determined by the valuers based on its analyses of recent land transactions and market value of similar completed properties in the respective locations.

All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

20. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

The balance represents RMB50,000,000 as at 31 March 2012 and 2011 respectively (equivalent to approximately HK$61,664,000 and approximately HK$59,455,000 as at 31 March 2012 and 2011 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 49.

21. GOODWILL

	HK$'000
COST	
At 1 April 2010	760,886
Adjustments to measurement of consideration for acquisition *(note)*	(57,783)
Eliminated on deemed disposal of a subsidiary *(Note 46)*	(2,728)
Eliminated on disposal of a subsidiary *(Note 45(a))*	(255,824)
At 31 March 2011	444,551
Acquisition of a subsidiary *(Note 43)*	1,299
At 31 March 2012	445,850
IMPAIRMENT	
At 1 April 2010	255,824
Released on disposal of a subsidiary *(Note 45(a))*	(255,824)
At 31 March 2011 and 31 March 2012	–
CARRYING VALUES	
At 31 March 2012	445,850
At 31 March 2011	444,551

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.

21. GOODWILL *(Continued)*

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 four-year period, with discount rate of 11.20% (2011: 13.55%) per annum. The cash flows beyond the four-year period were extrapolated using a steady growth rate of 3% (2011: 3.34%). 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.

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 40(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.

22. INTANGIBLE ASSETS

	Technical know-how
	HK$'000
COST	
At 1 April 2010	5,665
Exchange realignment	267
At 31 March 2011	5,932
Exchange realignment	220
At 31 March 2012	6,152
AMORTISATION	
At 1 April 2010	2,385
Exchange realignment	112
Charge for the year	1,249
At 31 March 2011	3,746
Exchange realignment	152
Charge for the year	1,283
At 31 March 2012	5,181
CARRYING VALUES	
At 31 March 2012	**971**
At 31 March 2011	2,186

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 five years on a straight-line basis.

23. INTERESTS IN ASSOCIATES

	2012	2011
	HK$'000	*HK$'000*
Cost of unlisted investments in associates	**71,121**	68,982
Share of post-acquisition results and other comprehensive income, net of dividends received	**(8,225)**	381
	62,896	69,363

As at 31 March 2012 and 2011, 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 2012	2011	Principal activity
恒有源投資管理有限公司 (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%**	49%	Production and sales of machineries geothermal energy systems

Included in the cost of investments in associates is goodwill of approximately HK$482,000 (2011: HK$482,000) arising on acquisition of an associate during the period ended 30 September 2009.

23. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2012	2011
	HK$'000	*HK$'000*
Current assets	**98,822**	125,555
Non-current assets	**86,630**	49,899
Total assets	**185,452**	175,454
Current liabilities and total liabilities	**17,357**	22,574
Net assets	**168,095**	152,880
Group's share of net assets of associates	**62,896**	68,881

	2012	2011
	HK$'000	*HK$'000*
Revenue	**52,069**	39,705
(Loss) profit for the year	**(8,786)**	1,221
Other comprehensive income for the year	**3,175**	—
Group's share of (losses) profits and other comprehensive income of associates for the year	**(2,501)**	371

24. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2011
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note)*	**493**	476

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.

25. OTHER RECEIVABLE

The amount of approximately HK$1,865,000 (2011: HK$7,486,000) represented the deferred consideration which arose from the disposal of a 54% owned subsidiary during the six months ended 31 March 2010 which will be fully repaid by 31 December 2013 in installments. The consideration due within one year of approximately HK$13,623,000 as at 31 March 2012 (2011: HK$13,294,000) has been included in other receivables under current assets. The Group did not hold any collateral over these balances.

26. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Allowance for doubtful debts	Revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2010	22,802	–	22,802
Exchange realignment	139	–	139
Release on deemed disposal of a subsidiary *(Note 46)*	(282)	–	(282)
Release on disposal of a subsidiary *(Note 45(a))*	(148)	–	(148)
Charged to consolidated income statement for the year	(941)	–	(941)
At 31 March 2011	**21,570**	**–**	**21,570**
Exchange realignment	**217**	**(149)**	**68**
Charged to equity during the year	**–**	**(7,994)**	**(7,994)**
Charged to consolidated income statement for the year	**(97)**	**(5,671)**	**(5,768)**
At 31 March 2012	**21,690**	**(13,814)**	**7,876**

As at 31 March 2012, the Group had no deductible temporary differences (2011: HK$23,178,000). 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 approximately RMB210,762,000 (2011: RMB159,936,000) 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.

27. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**19,207**	17,180
Work-in-progress	**1,567**	7,834
Finished goods	**5**	5
	20,779	25,019

28. TRADE AND RETENTION RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**54,747**	52,699
Retention receivables	**10,188**	27,345
Less: allowance for doubtful debts	**(8,479)**	(8,568)
	56,456	71,476

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 receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period. The Group does not hold any collateral over these balances.

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**2,002**	12,446
91 to 180 days	**3,495**	3,923
181 to 365 days	**10,061**	20,534
Over 365 days	**30,710**	7,228
	46,268	44,131

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$30,710,000 (2011: HK$7,228,000) 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.

28. TRADE AND RETENTION RECEIVABLES *(Continued)*

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

	2012	2011
	HK$'000	*HK$'000*
Over 365 days	**30,710**	7,228

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

Allowance in respect of trade 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 receivables balance directly. The movement in the allowance for doubtful debts is as follows:

	2012	2011
	HK$'000	*HK$'000*
Balance at beginning of the year	**8,568**	13,504
Exchange realignments	**301**	555
Impairment losses recognised on trade receivables	**4,095**	190
Impairment losses reversed	**(4,485)**	(3,955)
Disposal of a subsidiary	**–**	(593)
Deemed disposal of a subsidiary	**–**	(1,133)
Balance at end of the year	**8,479**	8,568

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$8,479,000 (2011: HK$8,568,000) which have been placed in severe financial difficulties.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Prepayments	**13,828**	11,511
Deposits	**20,566**	21,167
Other receivables	**29,657**	26,042
Less: allowance for doubtful debts	**(2,269)**	(2,269)
	61,782	56,451

The Group did not hold any collateral over these balances.

Included in the other receivables, approximately HK$13,623,000 (2011: HK$13,294,000) were consideration receivable from disposal of subsidiaries.

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:

	2012	2011
	HK$'000	*HK$'000*
Balance at beginning of year	**2,269**	2,269
Impairment losses recognised on other receivables	**–**	–
Balance at end of the year	**2,269**	2,269

Included in the allowance for doubtful debts were individually impaired other receivables with an aggregate balance of approximately HK$2,269,000 (2011: HK$2,269,000) which have been placed in severe financial difficulties.

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

	2012	2011
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**975,055**	969,864
Less: progress billings	**(576,805)**	(701,860)
	398,250	268,004
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**413,690**	277,679
Amounts due to customers for contract work	**(15,440)**	(9,675)
	398,250	268,004

As at 31 March 2012, advances received from customers for contract works included in deposits received amounted to HK$3,897,000 (2011: HK$5,392,000). At the end of both reporting periods, the management expected that the advances received from customers for contract works would be realised within twelve months after the end of the respective reporting period.

31. AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS

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

32. HELD-FOR-TRADING FINANCIAL ASSETS

	2012	2011
	HK$'000	*HK$'000*
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**25**	50

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.

33. RESTRICTED BANK BALANCES/SHORT-TERM BANK 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.

Short-term bank deposits represent the fixed bank deposits carried interest at rates ranged from 2.5% to 3% (2011: from 2.5% to 3%) per annum of which the maturity day is over 3 months.

For the year ended 31 March 2011, cash held at non-bank financial institutions carried interest at 0.0001% per annum.

Bank balances carried interest at market rates of 0.36% (2011: 0.36%) per annum.

34. TRADE PAYABLES

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

	2012	2011
	HK$'000	*HK$'000*
Within 90 days	**39,765**	17,301
91 to 180 days	**16,685**	7,612
181 to 365 days	**10,355**	14,709
Over 365 days	**36,853**	35,285
	103,658	74,907

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

35. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Accrued liabilities	18,066	9,843
Deposits received	14,116	57,939
Other payables	38,263	22,198
	70,445	89,980

36. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

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

37. AMOUNT DUE FROM (TO) ASSOCIATES

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

38. BANK LOAN

	2012	2011
	HK$'000	*HK$'000*
Unsecured bank loans repayable within one year	2,467	–

The above bank loan carried interest at variable rates during the year and is denominated in RMB. The effective interest rates at the end of the reporting period is 7.88% (2011: nil).

39. RECEIPT IN ADVANCE

The receipt in advance represents the rental receipt in advance for the investment properties under construction. The lease period were 20 years commencing from the completion of the investment properties and the directors of the Company expect the lease commence in mid 2013 and thus the receipt in advance is included under non-current liabilities.

40. CONVERTIBLE NOTE

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 2011 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 note contains 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.

40. CONVERTIBLE NOTE *(Continued)*

	HYY Convertible Notes		
	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2010	145,919	87,910	233,829
Imputed interest charged	7,486	–	7,486
Upon cancellation *(note a)*	(43,452)	(24,900)	(68,352)
Upon waiver *(note b)*	(32,235)	(18,473)	(50,708)
Upon conversion *(note c)*	(77,718)	(44,537)	(122,255)
At 31 March 2011	–	–	–

Notes:

(a) 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.

(b) 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.

(c) 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.

41. DEFERRED INCOME

	2012	2011
	HK$'000	*HK$'000*
Balance at beginning of the year	–	4,458
Exchange realignment	**138**	80
Government grants received	**21,502**	–
Amortisation of deferred income on government grants	**(6,846)**	(486)
Disposal of subsidiaries *(Note 45(a))*	–	(4,052)
Balance at end of the year	**14,794**	–

42. SHARE CAPITAL

	Number of shares US$0.01 each		Number of shares US$0.04 each		Share capital		Share capital	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	'000	*'000*	***'000***	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares								
Authorised:								
At beginning of the year	**–**	–	**4,000,000**	4,000,000	**160,000**	160,000	**1,248,000**	1,248,000
Subdivision of share capital *(Note a)*	**16,000,000**	–	**(4,000,000)**	–	**–**	–	**–**	–
At end of the year	**16,000,000**	–	**–**	4,000,000	**160,000**	160,000	**1,248,000**	1,248,000
Issued and fully paid:								
At beginning of the year	**–**	–	**2,065,307**	1,696,778	**82,612**	67,871	**644,368**	529,387
Reduction of issued share capital *(Note a)*	**2,065,307**	–	**(2,065,307)**	–	**(61,959)**	–	**(483,276)**	–
Exercise of share options *(Note b)*	**–**	–	**–**	47,700	**–**	1,908	**–**	14,882
Conversion of convertible notes *(Note c)*	**–**	–	**–**	86,125	**–**	3,445	**–**	26,871
Subscription of shares *(Note d)*	**–**	–	**–**	234,704	**–**	9,388	**–**	73,228
At end of the year	**2,065,307**	–	**–**	2,065,307	**20,653**	82,612	**161,092**	644,368

Notes:

(a) Pursuant to a special resolution passed by the shareholders at the extraordinary general meeting held on 23 March 2011 and the approval obtained from the Grand Court of the Cayman Islands on 17 June 2011, the issued share capital of the Company was reduced by reducing the nominal value of each share from US$0.04 to US$0.01, thereby cancelling the paid-up capital to the extent of US$0.03 on each share in issue. The credit balance of approximately HK$483,276,000 arising from the capital reduction was credited to the contributed surplus account of the Company and then approximately HK$328,895,000 applied to set off against the accumulated losses as at 31 March 2011.

Furthermore, the authorised share capital of the Company were subdivided from US$0.04 each into four new shares of US$0.01 each, and the authorised share capital remains at US$160,000,000 or approximately HK$1,248,000,000.

(b) 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.

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

(c) 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 40 (c)). These new ordinary shares were issued rank pari passu with the existing shares in all respects.

(d) 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$74,730,000 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.

43. ACQUISITION OF A SUBSIDIARY

On 1 April 2011, there was injection of capital of RMB5,100,000 (approximately HK$6,059,000) by 恒有源科技發展有限公司 ("恒有源"), a subsidiary of the Group, to 綿陽市金恒源地能科技有限公司 ("金恒源"). The Group's equity interest in 金恒源 had been increased from nil to 51%. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$1,299,000. 金恒源 is principally engaged in the production and sales of geothermal energy systems and was acquired with the objective of expanding the Group's business.

Assets acquired and liabilities recognised at the date of which control was obtained are as follows:

	HK$'000
Property, plant and equipment	405
Bank balances	7,854
Other receivables and deposits	1,419
Inventories	287
Trade payables	(479)
Other payables	(153)
	9,333

Goodwill arising on acquisition

	HK$'000
Capital injected	6,059
Plus: non-controlling interests	4,573
Less: recognised amount of identifiable net assets acquired (100%)	(9,333)
Goodwill arising on acquisition of a subsidiary	1,299

The non-controlling interest of 49% in 金恒源 recognised at the acquisition date was measured by reference to the share of the fair value of the identifiable assets acquired and the liabilities assumed which amounted to approximately HK$4,573,000 (equivalent to approximately RMB3,849,000).

Goodwill arose on the acquisition of 金恒源 because the acquisition included the sales network of 金恒源 in the local markets, especially in the SiChuan region. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Net cash inflow arising on acquisition:

	HK$'000
Capital injected	6,059
Less: bank balances acquired	(7,854)
	(1,795)

Impact of acquisition on the results of the Group

Included in the profit for the year is approximately HK$3,458,000 (equivalent to approximately RMB2,830,000) attributable to 金恒源. Revenue for the year includes approximately HK$40,478,000 (equivalent to approximately RMB33,133,000) attributable to 金恒源.

43. ACQUISITION OF A SUBSIDIARY *(Continued)*

Impact of acquisition on the results of the Group *(Continued)*

Had the acquisition of 金恒源 been effected on 1 April 2011, the revenue of the Group for the year ended 31 March 2012 would have been approximately HK$318,079,000 and the profit for the year would have been approximately HK$63,393,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2011, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had 金恒源 been acquired on 1 April 2011, the directors of the Company have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

44. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 1 April 2011, 恒有源, a subsidiary of the Group had entered into a structure contract with 北京市四博連通用機械新技術公司 ("四博連"), a non-controlling shareholder of the Group, for a period of five years without any consideration.

Pursuant to the structure contract, 恒有源 is able to monitor, supervise and effectively control the operations and financial polices of 北京市廣廈建築事務所 ("廣廈"), being the wholly-owned subsidiary of 四博連, and 廣廈 is an enterprise under collectively-owned and incorporated in PRC, which the ownership was not freely transferable. Based on the structure contract, in the opinion of the directors of the Company, notwithstanding the lack of equity ownership in 廣廈, 恒有源 is entitled to control over 廣廈 in substance. Since 廣廈 owned a license which is not transferrable, and in the opinion of the directors of the Company, the structure contract entered into were solely for the benefit of the license owned by 廣廈, and 廣廈 had no business operations at the date of control obtained by 恒有源, the above transaction had been accounted for as an acquisition of assets. The effect of the acquisition is summarised as follows:

	HK$'000
Property, plant and equipment	7
Bank balances	378
Other receivables and deposits	4,705
Other payables	(1,596)
	3,494

Analysis of net cash inflow of cash and cash equivalents arising on acquisition of assets through acquisition of a subsidiary is as follow:

	HK$'000
Consideration paid in cash	–
Less: bank balances	(378)
	(378)

45. DISPOSAL OF SUBSIDIARIES

For the year ended 31 March 2011

(a) As referred to Note 12, on 13 September 2010, the Group discontinued 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
Prepayments, deposits and other receivables	6,901
Bank balances and cash	9,115
Trade payables	(3,301)
Other payables and accrued liabilities	(2,133)
Tax payable	(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 for the year is disclosed in Note 12.

45. 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.

46. 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.

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 of approximately HK$4,499,000 in respect of operating activities and cash outflow of HK$354,000 in respect of investing activities.

47. DEREGISTRATION OF SUBSIDIARIES

For the year ended 31 March 2012

During the year ended 31 March 2012, the Group deregistered three non wholly-owned subsidiaries, namely 北京華利清源節能科技有限公司 ("北京華利清源"), 北京匯澤恒有源科技發展有限公司 ("北京匯澤恒有源") and 北京恒有源綠色能源科技發展有限公司 ("北京恒有源綠色能源").

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

	北京匯澤恒有源 HK$'000	北京恒有源綠色能源 HK$'000	北京華利清源 HK$'000	Total HK$'000
Net assets disposed of:				
Property, plant and equipment	15	–	5	20
Prepayments and other receivables	64	–	250	314
Accrued liabilities and other payables	(49)	–	(18)	(67)
Tax payable	(1)	–	–	(1)
Amount due from a shareholder	–	2,773	–	2,773
Net assets	29	2,773	237	3,039
Non-controlling interests	235	(2,627)	(113)	(2,505)
Release of exchange translation reserve	(31)	(1,152)	(20)	(1,203)
(Gain) loss on deregistration	233	(1,006)	104	(669)
Net cash outflow arising on deregistration				
Bank balances and cash	–	–	–	–

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

47. DEREGISTRATION OF SUBSIDIARIES *(Continued)*

For the year ended 31 March 2011

During the year ended 31 March 2011, the Group deregistered 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 (liabilities) assets disposed of:				
Property, plant and equipment	–	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 (liabilities) assets	(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 balances and cash	–	–	(3,402)	(3,402)

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

48. OPERATING LEASES

The Group as lessor

The Group sub-leases part of the building and leases the investment properties under construction or development under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At the end of reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**94,711**	–
In the second to fifth years, inclusive	**301**	–
After five years	**163,619**	–
	258,631	–

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:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**5,013**	3,968
In the second to fifth years inclusive	**3,884**	4,397
Over five years	**2,642**	–
	11,539	8,365

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 twenty years. No provision for contingent rent was established in the leases.

49. CAPITAL COMMITMENTS

	2012	2011
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	**25,899**	24,971
– Investment property under construction	**105,177**	–
– Acquisition of property, plant and equipment	**6,369**	–
– Acquisition of land use rights	**173,892**	167,663
	311,337	192,634

50. 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.

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.

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

Share Option Plan 2010 *(Continued)*

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.

50. 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:

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, the exercise price and the number of the share options outstanding were adjusted accordingly.

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

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

Year ended 31 March 2012

Date of grant	Outstanding at 1 April 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2012
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**	–	–	**(7,500,000)**	**47,200,000**
	114,200,000	–	–	**(67,000,000)**	**47,200,000**
Employees					
1 March 2002	**75,000**	–	–	**(75,000)**	–
29 May 2007	**2,750,000**	–	–	**(2,750,000)**	–
23 June 2009	**27,500,000**	–	–	**(27,500,000)**	–
9 September 2010	**118,292,000**	–	–	–	**118,292,000**
	148,617,000	–	–	**(30,325,000)**	**118,292,000**
	262,817,000	–	–	**(97,325,000)**	**165,492,000**
Exercisable at the end of year					**102,159,000**
Weighted average exercise price	**HK$0.325**	–	–	**HK$0.058**	**HK$0.426**

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

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

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.

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.

50. SHARE-BASED PAYMENT TRANSACTIONS *(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$8,992,000 for the year ended 31 March 2012 (2011: HK$22,150,000) in relation to share options granted by the Company.

51. 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$3,641,000 (2011: HK$3,181,000). At the end of the reporting period, there are no forfeited contributions.

52. RELATED PARTY TRANSACTIONS

(a) Amounts due from/to non-controlling shareholders and an associate company are included in the consolidated statement of financial position. The terms are set out in notes 31, 36 and 37 respectively.

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

	2012	2011
	HK$'000	*HK$'000*
Operating lease payments paid to a non-controlling shareholder	**3,215**	2,433
Rental income from an associate	**4,507**	–
Sales to an associate	–	27,664
Sales of plant and machinery to an associate	**20,392**	–
Purchase from an associate	**18,902**	27,018
	47,016	57,115

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

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

	2012	2011
	HK$'000	*HK$'000*
Short-term benefits	**7,576**	8,311
Retirement benefits scheme contributions	**57**	102
Share-based payment	**8,992**	14,061
	16,625	22,474

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

53. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2012, the Group sold certain plant and machinery of approximately HK$20,392,000 to an associate. The amount was set off with approximately HK$14,401,000 to amount due to an associate.

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment		**11**	36
Interests in subsidiaries	(a)	**836,134**	836,134
		836,145	836,170
Current assets			
Prepayments, deposits and other receivables		**1,445**	1,073
Amounts due from subsidiaries	(a)	**160,760**	160,885
Bank balances and cash		**42,845**	62,335
		205,050	224,293
Current liabilities			
Accrued liabilities and other payables		**1,390**	1,350
Amounts due to subsidiaries	(b)	**47,485**	57,418
		48,875	58,768
Net current assets		**156,175**	165,525
Net assets		**992,320**	1,001,695
Capital and reserves			
Share capital		**161,092**	644,368
Reserves	(c)	**831,228**	357,327
Total equity		**992,320**	1,001,695

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

Notes:

(a) Interests in subsidiaries

		2012	2011
		HK$'000	*HK$'000*
Unlisted investments, at cost		**43,437**	43,437
Amounts due from subsidiaries – non-current	*(i)*	**1,023,585**	1,023,585
Amounts due from subsidiaries – current	*(ii)*	**160,760**	160,885
		1,227,782	1,227,907
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)
		996,894	997,019
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**160,760**	160,885
		996,894	997,019

(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.

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

Notes: *(Continued)*

(c) Reserves

	Share premium	Contributed surplus	Convertible notes reserve	Share-based payment reserve	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010	507,833	–	87,910	26,240	–	(318,868)	303,115
Loss and total comprehensive expense for the year	–	–	–	–	–	(34,020)	(34,020)
Recognition of share-based payment	–	–	–	22,150	–	–	22,150
Issue of shares upon exercise of share options *(note 42(b))*	9,788	–	–	(8,910)	–	–	878
Issue of shares upon share subscription *(note 42(d))*	1,502	–	–	–	–	–	1,502
Issue of shares upon conversion of convertible notes *(note 42(c))*	95,384	–	(44,537)	–	–	–	50,847
Release upon waiver of convertible notes *(note 40(b))*	–	–	(18,473)	–	32,235	18,473	32,235
Release upon cancellation of convertible notes *(note 40(a))*	–	–	(24,900)	–	–	5,520	(19,380)
At 31 March 2011	**614,507**	**–**	**–**	**39,480**	**32,235**	**(328,895)**	**357,327**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(18,367)**	**(18,367)**
Recognition of share-based payment expenses	**–**	**–**	**–**	**8,992**	**–**	**–**	**8,992**
Lapse of share options	**–**	**–**	**–**	**(18,767)**	**–**	**18,767**	**–**
Reduction of issued share capital *(note 42(a))*	**–**	**483,276**	**–**	**–**	**–**	**–**	**483,276**
Utilisation of the contributed surplus *(note 42(a))*	**–**	**(328,895)**	**–**	**–**	**–**	**328,895**	**–**
At 31 March 2012	**614,507**	**154,381**	**–**	**29,705**	**32,235**	**400**	**831,228**

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.

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2012 and 2011 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		
				2012	2011	**2012**	2011	
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 (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
金恒源#	PRC	Registered capital	RMB10,000,000	–	–	**51%**	N/A	Production and sales of geothermal energy system
恒潤豐置業(大連)有限公司 (Heng Run Feng Reality (Dalian) Company Ltd.*) #	PRC	Registered capital	RMB12,000,000	–	–	**100%**	100%	Properties investment

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

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

* English name is for identification purpose only.

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 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 or at any time during both year.

56. EVENTS AFTER THE REPORTING PERIOD

(i) On 14 June 2012, the Group had disposed the contract related to the acquisition of land use rights to an individual third party in consideration of RMB54,000,000 (approximately HK$67,000,000). Deposit paid related to the acquisition of land use rights were amounted to RMB50,000,000 (approximately HK$61,664,000) as at 31 March 2012 and related capital commitment were amounted to RMB141,000,000 (approximately HK$173,892,000). Upon the disposal, RMB1,000,000 were received.

(ii) Pursuant to the announcement and circular of the Company dated 12 April 2012 and 5 June 2012 respectively, the Company entered into the letter of intent with a subscriber, being an independent third party, in relation to the allotment and issue of 850,000,000 subscription shares at a price of HK$0.41 per subscription share. Allotment of part of the subscription shares shall be approved by the shareholders of the Company. On 22 June 2012, an ordinary resolution approving the specific mandate and the transaction contemplated thereunder had been passed in the extraordinary general meeting. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 12 April 2012 and 5 June 2012 respectively.

(iii) Pursuant to the announcement of the Company dated 14 June 2012, the Company has received a petition pursuant to Section 168A of the Hong Kong Companies Ordinance, Chapter 32 which filed by Ms. Cheung Kwan, the former director of the Company and certain subsidiaries of the Group, as petitioner, to the High Court on 13 June 2012. The petition was made against Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, both being executive directors of the Company and Ms. Luk Hoi Man, being the non-executive director of the Company, pursuant to the petition, the petitioner made allegations that affairs of the Company were conducted in a manner which are unfairly prejudicial to have interest in the Company. Details of petition are set out, inter alia, in the announcement of the Company dated 14 June 2012.

The directors of the company have consulted an legal advisor that the claims are against the above mentioned directors of the Company and does not see any direct liability due from the Company to the petitioner. In the opinion of the directors of the Company, there are no potential liabilities imposed on the Company.