中國地能有限公司
CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

Annual Report 2012

TECHNOLOGY AND RESOURCES LINKS

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This report will remain on the "Latest Company Report" page on the GEM website for at least 7 days from the date of publication and on the website of China Ground Source Energy Limited at www.cgsenergy.com.hk.

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Zheng Qiyu
Chan Wai Kay Katherine
Xu Shengheng
Zang Yiran

Non-executive directors

Wu Xiaohua
Xu Genghong

Independent non-executive directors

Hu Zhaoguang
Jia Wenzeng
Wu Desheng

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
KY1-1112
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)*
Hu Zhaoguang
Wu Desheng

REMUNERATION COMMITTEE

Hu Zhaoguang *(Chairman)*
Zheng Qiyu *(Deputy Chairman)*
Xu Shengheng
Jia Wenzeng
Wu Desheng

NOMINATION COMMITTEE

Zheng Qiyu *(Chairman)*
Wu Xiaohua *(Deputy Chairman)*
Hu Zhaoguang
Jia Wenzeng
Wu Desheng

AUTHORISED REPRESENTATIVES

Xu Shengheng
Wong Lai Yuk

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Sheddon Road, George Town
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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
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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 our 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 nine months ended 31 December 2012 ("the Review Period").

The revenue generated for the Review Period was approximately HK$231,000,000, a slight decrease compared with that for the year ended 31 March 2012. The main reason for the decrease lies in the change of the financial year end date to 31 December, resulting in only nine months performance. The Group's net profit for the nine months ended 31 December 2012 was approximately HK$46,000,000. During the Review Period, a final dividend of HK0.4 cents per share has been proposed.

During the Review Period, I was nominated as the Chairman of the Group and have taken up the responsibility for the future development of the Company and interest of the shareholders. I will make every effort to improve the long-term development of the Company, the welfare of the staff, and the returns for the shareholders, aiming to establish our Company to be a leading enterprise in the industry with high efficiency and profitability.

Upon investment in the Group by share subscription, China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited has become the single largest shareholder of the Company and our Group thereby became a professional operation team in the field of shallow geothermal energy among Hong Kong listed companies. Based on the existing brand resources and market influence of China Energy Conservation and Environmental Protection Group in the fields of energy conservation and new energy, its broad projects and business networks, and smooth funding channels, we will make advantage of our technological research competence and industry chain in developing shallow geothermal energy. Through the five matured business models: (1) revenue of patented products and proprietary technology; (2) contract management of geothermal energy as (heating)/cooling energy; (3) investment construction and operation of HYY distributed geothermal energy as source of cooling/heating station; (4) Sales and installation of HYY geothermal energy heat pump system; (5) China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zone, we strive for establishing our Group to be a top international professional industry group in the PRC and abroad specializing in application of shallow geothermal energy as alternative energy for heating and cooling for buildings.

The 18th National Congress Report of the Communist Party of China (CPC) advocates the basic state policies of energy conservation and environmental protection in order to build an eco-friendly China for the sustainable development of the nation. Having been upgraded to a national strategy, energy conservation and environmental protection have become a vital momentum for the transformation of developmental mode which will escalate the adjustment of industrial structure and the acceleration of upgrading and transformation. The shallow geothermal energy heat pump system as promoted by the Group encompassing such outstanding characteristics and competitive edge of energy saving, environmental friendliness and pollution-free which thus become an effective alternative to replace coal-fired boiler heating system as heating energy for buildings. It could address coal burning, energy consumption, and other problems related to coal-fired heating such as energy waste, low efficiency and serious pollution. Meanwhile, we have been actively taking part in the green construction by developing China Energy-saving Building • Geothermal Energy for Heating (Cooling) Demonstration Zone in different regions in China with an aim to lead the energy transformation and upgrade in the regions and finally come up with sustainable development featured with energy saving and environmental friendliness.

Chairman's Statement

I would like to take this opportunity to express my highest respect to all employees and the directors for their longtime dedication and hard work. Also, I'd like to deliver my heartfelt thanks to all clients, business partners and shareholders for their valuable support. Now I would like to invite you all to join hands with us strive for a brighter future of the Group. The Group will further the goal of maximizing the effectiveness of the company and the value of shareholders by actively promoting the research and development of shallow geothermal energy technology. Through technological innovation and effective management, we are looking forward to the sustainable and steady development of the Company and higher value of the shareholders, as well as a splendid page for the Company.

Sincerely,

Zheng Qiyu
Chairman

Hong Kong, 22 March 2013

Management Discussion and Analysis

In September 2012, the Board of the Company resolved to change the financial year end date of the Company from 31 March to 31 December. The change of the Company's financial year end date is to align with the financial year end date of the Group's PRC operating subsidiaries and thereby streamlining the preparation of the consolidated financial statements of the Group. As a result of the change of the financial year end date, the current financial report only covers a nine-month period beginning from 1 April 2012 to 31 December 2012 and all the percentages are comparing a nine-month period to twelve-month period.

HIGHLIGHTS

The Group's profit attributable to shareholders for the nine months ended 31 December 2012 was approximately HK$46 million on a turnover of approximately HK$231 million, compared with a profit of approximately HK$45 million (restated) on a turnover of approximately HK$318 million for the year ended 31 March 2012.

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 nine months ended 31 December 2012 and the year ended 31 March 2012.

	Nine months ended 31 December 2012		Twelve months ended 31 March 2012	
	HK$'000	***%***	*HK$'000*	*%*
Turnover:				
– Shallow geothermal energy utilisation system	**225,471**	**98**	313,572	99
– Securities investment and trading	**–**	**–**	–	–
– Properties investment and development	**5,519**	**2**	4,507	1
Total turnover	**230,990**	**100**	318,079	100

TURNOVER AND PROFITS

Total turnover from operations for the nine months ended 31 December 2012 were approximately HK$231 million, as compared with approximately HK$318 million for year ended 31 March 2012. Turnover from shallow geothermal energy utilisation system was decreased due to the fact that only nine months were covered in the current financial period.

During the nine months ended 31 December 2012 under review, the Group recorded net profit of approximately HK$46 million compared with a profit of approximately HK$54 million for the year ended 31 March 2012. The decrease in net profit was primarily due to the decrease in the gross profit.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the nine months ended 31 December 2012 was approximately HK$79 million or, as a percentage of revenue, 34.3% (year ended 31 March 2012: HK$147 million, 46.2% of revenue). The decrease in gross profit margin was mainly attributable to the rising prices of raw materials and labour costs.

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for the nine months ended 31 December 2012 increased by approximately HK$4 million, or 40% as compared with that of the year ended 31 March 2012. The increase is primarily due to the increase of after sales service cost of company projects.

Management Discussion and Analysis

Administrative expenses amounted to approximately HK$72 million for the nine months ended 31 December 2012 and approximately HK$67 million for the year ended 31 March 2012. The expenses were increased slightly as compared with the last year.

SEGMENTAL INFORMATION

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

Shallow Geothermal Energy Utilisation

The Group continued to put a great effort in promoting the shallow geothermal energy utilisation as an alternative green energy through the five business models as detailed in the "Business Review and Outlook" section.

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 and development

The Group had expanded its business to the self-built demonstration projects in Beijing and Dalian for promotion of the application of shallow geothermal energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sales under development had been applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply.

Further information regarding the Group'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 December 2012 was approximately HK$601 million (31 March 2012: approximately HK$427 million). As at 31 December 2012, the Group had cash and bank balances of approximately HK$156 million (31 March 2012: approximately HK$136 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 December 2012, no group assets have been charged (31 March 2012: 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 minimise exposure to foreign exchange risks.

As at 31 December 2012, the Group had no foreign exchange contracts.

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, decreased to 0% as at 31 December 2012 (31 March 2012: 0.2%), due to the repayment of bank loan during the nine months ended 31 December 2012.

Management Discussion and Analysis

EMPLOYEES

As at 31 December 2012, the Group employed approximately 490 staff (31 March 2012: approximately 500). The number of employees was remained steady.

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 SCHEME

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

The detailed disclosures relating to the Company's share option scheme are set out in note 44 to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at 31 December 2012, the Company did not provide any form of guarantees for any companies and was not liable to any legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board resolved to recommend a final dividend for the nine months ended 31 December 2012 of HK0.4 cents per share (year ended 31 March 2012: nil).

The proposed final dividend of HK0.4 cents per share are subject to approval by the shareholders in the annual general meeting.

CAPITAL STRUCTURE

The subscription of shares by China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited was completed on 20 August 2012. A total of 850,000,000 ordinary shares of US$0.01 each were issued to China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited at subscription price of HK$0.41 per share for cash totaling HK$348,500,000, representing approximately 29.16% of the issued share capital of the Company as at 20 August 2012 as enlarged by the subscription. The excess of the issue price over the par value of the shares, net of share issued expenses were credited to the share premium account of the Company. All the subscription shares rank pari passu with the existing shares.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 43 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 geothermal energy segment and properties investment and development segment in the future.

On 21 February 2013, a strategic co-operation framework agreement was entered into between the Company and Accord Sunny investments Limited ("Accord Sunny"), an independent third party not connected to the Group, pursuant to which a preliminary cooperation framework in relation to the acquisition of the Land and the investment of the construction on the Land has been agreed. Details of the co-operation frame work agreement are set out in the announcement of the Company dated 21 February 2013.

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 and look for potential in PRC and overseas.

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisition and disposal transactions are set out in notes 40, 41 and 42 respectively to the consolidated financial statements of this report.

BUSINESS REVIEW AND OUTLOOK

Shallow geothermal energy is a kind of the low-temperature heat, contained in the underground thermostat layer which is hundreds of meters to the surface of the Earth. With its large reserves, fast renewable, wide distribution, and moderate temperature for the four seasons, it is called a huge "green energy treasure house". Shallow geothermal energy utilisation technology is widely recognised as an efficient and environmentally friendly means of heating. The key to use shallow geothermal energy is the collection technology.

"HYY single well circulation heat exchange collection technology" is an original innovative technology of our headquarters in PRC, Ever Source Science and Technology Development Group Ltd. ("HYY"). By the end of 2012, we have applied the technology across the country for more than 9 million square meters. The 12-year promotion practices of the technology prove its splendid prospect of industrialization, a complete industrial chain in the Group, mature engineering applications, high economic efficiency, and efficient energy saving, with a wide range of promotion foundation. HYY has recently coordinated with Beijing Energy Green Council in preparation of the "engineering and technical specification of single well circulation heat exchange collection wells" for local standards, made standard foundation to achieve industrialization of this original innovative technology in application to the shallow geothermal energy as alternative energy for heating/(cooling).

Five business models of shallow geothermal energy as alternative energy for heating/(cooling):

1. Revenue of patented products and proprietary technology;

2. Sales and installation of HYY geothermal energy heat pump system;

3. Contract management of geothermal energy as (heating)/cooling energy;

4. China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zone;

5. Investment construction and operation of HYY distributed geothermal energy as source of cooling/heating station

During the reporting period, the management of the Company adhered to the development direction of research and promotion focusing on the shallow geothermal energy as alternative energy for heating (cooling); deepened and perfected the five business models and related profit models; optimised the integrated horizontal management pattern with two poles (capital and operation) and two places (Hong Kong and Beijing); and established the developmental model of "collectivized scale production development and specialized companies operation".

China Energy Conservation and Environmental Protection Group through its wholly-owned subsidiary, subscribed the new shares of the Company during the reporting period, and becomes the single largest shareholder of the Company. Therefore our company becomes the only Hong Kong listed company in the field of scientific research and promotion of shallow geothermal energy as alternative energy for heating (cooling) and backed by a large state-owned professional energy saving and environmental protection groups as its single largest shareholder.

Management Discussion and Analysis

Shallow geothermal energy development and utilisation have gradually received wider social recognition and greater governmental support. "Guidance for the promotion of shallow geothermal energy development and utilisation", put out by National Energy Administration, the Ministry of Finance, and the Ministry of Housing and Urban-Rural Development, explicitly stated "actively promote shallow geothermal energy development and utilisation". Promotion of its application in new buildings or the existing buildings that implement energy-saving transform in the towns, and in public welfare buildings and large public buildings that invested by the government; encouraged to give priority in using heat pump system; encouraged to shift from conventional energy systems to a heat pump system or the composite use of heat pump system.

Shallow geothermal energy as alternative energy for heating (cooling) not only improved energy efficiency and energy conservation, but also reduced smoke emissions in the region and improved the air quality of the cities. Since the huge market demand for heating (cooling) in PRC, and the urgent need to improve the environment, shallow geothermal energy as alternative energy for heating/(cooling) has great potential. It is believed that under the persistent commitment of the management of the Company, the operation results will record further improvement.

Biography of Directors

Mr. Zheng Qiyu ("Mr. Zheng"), aged 59, the chairman of the Board and executive Director of the Company, holds a Bachelor's degree of Economics from Beijing Institute of Economics, a Master's degree of Economics from Nankai University and a Master's degree of Geological Engineering from Jilin University. He holds a Registered Qualification Certificate for Constructor (Hydraulic Engineering) with a researcher title. He had been an officer, Director of Professional Qualification Reform Office, Deputy Chief and Chief of Labour Affairs Office in Beijing Municipal Bureau of Geology and Mineral Exploration (北京地礦局), Head of Beijing Institute of Geology for Mineral Resources (北京地質研究所), Head of Beijing Municipal Bureau of Geology and Mineral Exploration (北京地礦局) and its Department Service (地礦部服局), General Manager of China Geo-Engineering Company (中國地質工程公司), Chairman and Deputy Secretary of the Party Committee of China Geo-Engineering Corporation (中國地質工程集團公司) and Deputy General Manager of China New Era Group Corporation (中國新時代（控股）集團公司). He is currently Deputy General Manager of China Energy Conservation and Environmental Protection Group ("CECEP") and Chairman of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 54, the deputy 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 50, 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 geothermal 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. Wu Xiaohua ("Ms. Wu"), aged 49, graduated from Peking University with a PhD degree. She took her first job in March 1988 and worked as a lecturer for Department of Meteorology in Meteorology College of Nanjing University. She had been served as a Programme Officer in The Administrative Center for China's Agenda 21, a Project Manager in International Cooperation Department of China Energy Conservation Investment Corporation (CECIC), a Senior Business Manager for Project Investment Management Department of CECIC, a Deputy General Manager for CECIC Biomass Energy Investment Corporation (中節能生物質能投資有限公司), a Deputy Director (the equivalent of Director) of Strategic Investment Department of CECIC, a Deputy Director (the equivalent of Director) of Strategic Management Department of China Energy Conservation and Environmental Protection Group (CECEP). She is currently an executive director and the General Manager for China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Ms. Xu Genghong ("Ms. Xu"), aged 46, holds a Bachelor's degree of law from Jilin University and she is a solicitor and a senior economist. She commenced her career in 1988 and had been a legal advisor for Harbin Power Plant Equipment Import and Export Corporation (哈爾濱電站設備進出口公司) of Harbin Electric Corporation, a Legal Secretary for Board Secretaries Department of Harbin Power Equipment Company Limited of Harbin Electric Corporation, a legal advisor for Harbin Power Engineering Company Limited of Harbin Electric Corporation, Chief of General Manager's Office, a legal advisor for Operation and Management Department, Director of Legal Affairs Department and the General Counsel of Harbin Power Engineering Company Limited and the General Counsel of China New Era Group Corporation. She is currently Deputy Director (the equivalent of Director) for Legal Department of CECEP and a non-executive director of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Biography of Directors

Mr. Zang Yiran ("Mr. Zang"), aged 34, graduated from Tianjin University of Finance & Economics with a Bachelor's degree. He commenced his career in September 1999 and worked as a director in Responsibility Accounting Centre of the Capital Operation Department of Tianjin First Center Hospital, a Business Manager of Financial Management Department of CECIC, an assistant to the Director of Financial Management Department of CECIC, an assistant to the Director of Financial Management Department of CECEP, the Deputy General Manager for China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Mr. HU Zhaoguang ("Mr. Hu"), aged 74, an independent non-executive Director of the Company, graduated from Department of Electrical Engineering of Tsinghua University in 1964. In 1982, he accomplished a business administration course in Sweden. Mr. Hu has over 40 years' experience in economics, finance and corporate management.

Mr. Hu is currently an adjunct professor of 21st Century Education Research Institute of Tsinghua University, a mentor of Tehua Postdoctoral Research Work Station of Chinese Academy of Social Sciences and an economic consultant of the People's Government of Shanxi Province. Mr. Hu is also currently an independent non-executive director of Digital China Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 861)), BBMG Corporation (a company listed on the Main Board of the Stock exchange (Stock Code: 2009)) and China City Railway Transportation Technology Holdings Company Limited (a company listed on the GEM Board of the Stock exchange (Stock Code: 8240)).

Mr. Hu was the chairman of the board of directors of Beijing Enterprises Holdings Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 392)), the chairman of Beijing Holdings Limited and an independent non-executive director of China Overseas Land and Investment Limited (a company listed on the Main Board of the Stock Exchange (Stock Code: 688)). From February 1993 to January 1998, Mr. Hu served as vice mayor of Beijing.

Mr. Jia Wenzeng ("Mr. Jia"), aged 70, an independent non-executive Director 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.

Wu Desheng ("Mr. Wu"), aged 74, an independent non-executive Director of the Company, 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.

The directors present their report and the audited financial statements of the Company and the Group for the nine months ended 31 December 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 49 to the consolidated financial statements.

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

RESULTS AND APPROPRIATIONS

The Group's profit for the nine months ended 31 December 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 28 to 112.

The directors have resolved to recommend the payment of a final dividend of HK0.4 cents per share to the shareholders whose names appear on the register of members of the Company on 21 June 2013, amounting to approximately HK$11,611,000 in aggregate.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and non-controlling interests of the Group for the nine months ended 31 December 2012, for the years ended 31 March 2012 and 2011, for the six months ended 31 March 2010 and for the year ended 30 September 2009 are set out below. This summary does not form part of the audited financial statements.

Results

	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000 (Restated)	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)	Year ended 30 September 2009 HK$'000 (Restated)
Turnover	**230,990**	318,079	322,211	162,323	365,674
Profit/(loss) before income tax	**73,501**	98,255	38,775	38,947	(173,078)
Income tax expense	**(27,445)**	(43,895)	(15,004)	(12,618)	(714)
Profit/(loss) for the period/year from continuing operation	**46,056**	54,360	23,771	26,329	(173,792)
Profit/(loss) for the period/year from discontinued operation	**–**	–	12,532	(75,099)	(1,644)
Profit/(loss) for the period/year	**46,056**	54,360	36,303	(48,770)	(175,436)
Attributable to:					
Owners of the Company	**45,951**	45,204	34,413	(46,404)	(175,299)
Non-controlling interests	**105**	9,156	1,890	(2,366)	(137)
	46,056	54,360	36,303	(48,770)	(175,436)

Report of the Directors

Assets, liabilities and non-controlling interests

	As at 31 December 2012 HK$'000	As at 31 March 2012 HK$'000 (Restated)	2011 HK$'000	2010 HK$'000	As at 30 September 2009 HK$'000 (Restated)
Total assets	**1,990,813**	1,479,445	1,265,000	1,184,642	1,478,889
Total liabilities	**(450,995)**	(340,144)	(235,445)	(382,915)	(580,879)
Non-controlling interests	**(39,680)**	(39,168)	(23,188)	(45,237)	(49,651)
Equity attributable to equity holders of the Company	**1,500,138**	1,100,133	1,006,367	756,490	848,359

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the end of the reporting period. The increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to approximately HK$44,646,000. These investment properties will be developed as the Group's self-built demonstration leasing project with the application of shallow geothermal energy.

SHARE CAPITAL

As at 31 December 2012, the authorised 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 2,902,827,117 shares of US$0.01 each.

Details of movements in the Company's share capital during the reporting period, together with the reasons therefore, are set out in notes 39 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

During the reporting period, 12,480,000 shares of US$0.01 each were repurchased by the Company at prices ranging from HK$0.36 to HK$0.40 per share through the Stock Exchange.

RESERVES

Details of movements in the reserves of the Company and the Group during the reporting period are set out in note 48 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

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 December 2012, the Company's reserve available for distribution amounted to approximately HK$882,650,000 (31 March 2012: HK$614,900,000) after net off the accumulated losses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 28% (31 March 2012: 14%) of the total sales for the reporting period and sales to the largest customer included therein amounted to approximately 10% (31 March 2012: 5%). Purchases from the Group's five largest suppliers accounted for approximately 7% (31 March 2012: 30%) of the total purchases for the reporting period and purchases from the largest supplier included therein amounted to approximately 2% (31 March 2012: 15%).

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 reporting period.

DIRECTORS

The directors of the Company during the reporting period were:

Executive directors:
Ms. Chan Wai Kay Katherine
Mr. Xu Shengheng
Mr. Zheng Qiyu (Appointed on 24 August 2012)
Mr. Wu Shu Min (Resigned on 24 April 2012)

Non-executive directors:
Ms. Wu Xiaohua (Appointed on 24 August 2012)
Ms. Xu Genghong (Appointed on 24 August 2012)
Mr. Zang Yiran (Appointed on 24 August 2012 and re-designated as Executive Director on 22 March 2013)
Ms. Luk Hoi Man (Resigned on 24 August 2012)
Mr. Fu Hui Zhong (Resigned on 24 April 2012)

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Hu Zhaoguang (Appointed on 30 July 2012)
Mr. Chow Wan Hoi Paul (Resigned on 31 July 2012)

Note: In accordance with article 87 of the Company's articles of association, Ms. Chan Wai Kay Katherine, Mr Xu Shengheng 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 pages 11 to 12 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 13 and 46 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 reporting period.

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 December 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 position in shares and equity derivatives

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	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)	1.17%	17,000,000 (L)		
	Interest of spouse	10,074,000 (L)	0.35%	–	61,074,000 (L)	2.10%
Mr. Xu Shengheng *(Note 2)*	Beneficial owner	508,319,000 (L)	17.51%	11,600,000 (L)	520,621,000 (L)	17.94%
	Beneficial owner	508,300,000 (S)	17.51%	–	508,300,000 (S)	17.51%
	Interest of spouse	702,000 (L)	0.02%	–		
Mr. Jia Wenzeng *(Note 3)*	Beneficial owner	–	–	1,500,000 (L)	1,500,000 (L)	0.05%

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

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 508,319,000 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. Mr. Jia Wenzeng is interested in 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

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

(b) Long Position under Equity Derivatives

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 December 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 December 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. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at 31 December 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 44 to the consolidated financial statements in respect of the share option plan, at no time during the period 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 44 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 December 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 Position and short position 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
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited *(Note 1)*	Beneficial owner	850,000,000 (L)	29.28%	–	850,000,000 (L)	29.28%
China Energy Conservation and Environmental Protection Group *(Note 1)*	Interest of controlled corporation	850,000,000 (L)	29.28%	–	850,000,000 (L)	29.28%
Ms. Luk Hoi Man *(Note 2)*	Beneficial owner	702,000 (L)	0.02%	–		
	Interest of spouse	508,319,000 (L)	17.51%	11,600,000 (L)	520,621,000 (L)	17.94%
	Interest of spouse	508,300,000 (S)	17.51%		508,300,000 (S)	17.51%

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

Notes:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP"), therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.

2. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 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 508,319,000 Shares and 11,600,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 31 December 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.

CONNECTED TRANSACTIONS

Following connected transactions were entered into by the Company and its subsidiary after the reporting period:–

On 4 February 2013, Ever Source Science and Technology Development Group Limited ("HYY"), a subsidiary of the Company, and CECEP New Material Investment Co. Ltd, a connected person to the Group, have entered into the Capital Increment Agreement ("Capital Increment Agreement"). Pursuant to the Capital Increment Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Fujian CECEP Quancheng Investment Co., Ltd. at a total consideration of RMB40,000,000 (equivalent to approximately HK$49,826,000). Details of the subscription are set out in the announcement of the Company dated 4 February 2013.

On 21 March 2013, the Company entered into the framework agreement ("Framework Agreement") with China Energy Conservation and Environmental Protection Group ("CECEP"). Pursuant to the Framework Agreement, CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the products using "HYY single-well circulation for heat exchange geothermal energy collection technology" and the operational services provided by the Group's subsidiaries. The term of the Framework Agreement is from the date of the independent shareholders' approval of the Framework Agreement or 1 May 2013, whichever is the later, to 31 December 2015. The annual caps for the transactions contemplated thereunder shall not be more than the amounts prescribed pursuant to the Framework Agreement. Details of the proposed continuing connected transactions are set out in the announcement of the Company dated 21 March 2013.

Details of other significant related party transactions of the Group during the nine months ended 31 December 2012 are set out in note 46 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 44 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.

Report of the Directors

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. Hu Zhaoguang and Mr. Wu Desheng. The Audit Committee has reviewed the Group's audited final results for the nine months ended 31 December 2012 and has provided advice and comments thereon. The Audit Committee held 5 meetings during the reporting period.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 21 to 25.

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 reporting period, 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 50 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the nine months ended 31 December 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

Zheng Qiyu
Chairman

Hong Kong, 22 March 2013

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 ("Former CG Code") contained in Appendix 15 of the GEM Listing Rules which was revised and renamed as Corporate Governance Code ("New CG Code") with effect from 1 April 2012 throughout the nine months ended 31 December 2012 (the "Reporting 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 Former CG Code and New CG 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 Reporting Period.

BOARD OF DIRECTORS

As at 31 December 2012, the Board comprised of nine Directors including three executive Directors, namely Mr. Zheng Qiyu, Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng, three non-executive Directors, namely Ms. Wu Xiaohua, Ms. Xu Genghong and Mr. Zang Yiran and three independent non-executive Directors, namely Mr. Hu Zhaoguang, Mr. Jia Wenzeng and Ms. Wu Desheng.

The composition of the Board ensures a balance of expertise 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.

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 nine months ended 31 December 2012, a total of seventeen 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.

Corporate Governance Report

During the nine months ended 31 December 2012, seventeen Board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees, as well as the general meetings were as follows:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General/ extraordinary Meeting
Executive Directors					
Mr. Zheng Qiyu (Appointed on 24 August 2012)	6/6	N/A	N/A	N/A	1/1
Ms. Chan Wai Kay Katherine	16/16	N/A	N/A	3/3	2/2
Mr. Xu Shengheng	16/16	N/A	N/A	N/A	2/2
Mr. Wu Shu Min (Resigned on 24 April 2012)	2/2	N/A	N/A	N/A	N/A
Non-executive Directors					
Ms. Wu Xiaohua (Appointed on 24 August 2012)	6/6	N/A	N/A	N/A	1/1
Ms. Xu Genghong (Appointed on 24 August 2012)	6/6	N/A	N/A	N/A	1/1
Mr. Zang Yiran (Appointed on 24 August 2012)	6/6	N/A	N/A	N/A	1/1
Ms. Luk Hoi Man (Resigned on 24 August 2012)	8/11	N/A	N/A	N/A	0/2
Mr. Fu Hui Zhong (Resigned on 24 April 2012)	2/2	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Hu Zhaoguang (Appointed on 30 July 2012)	7/8	2/3	1/1	2/2	0/1
Mr. Jia Wenzeng	12/17	4/5	1/1	3/3	0/2
Mr. Wu Desheng (Appointed on 21 March 2012)	14/17	5/5	1/1	3/3	1/2
Mr. Chow Wan Hoi Paul (Resigned on 31 July 2012)	7/9	2/2	N/A	1/1	0/1

Code provision A.6.7 of the New CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Luk Hoi Man, a former non-executive Director, Mr. Chow Wan Hoi Paul, a former independent non-executive Director, and Mr. Jia Wenzeng and Mr. Wu Desheng, both being the independent non-executive Directors, did not attend the Company's extraordinary general meeting held on 22 June 2012 due to their other unexpected business engagement and no travelling permit available.

Code provision E.1.2 of the New CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Hu Zhaoguang, the chairman of the Remuneration Committee, and Mr. Jia Wenzeng, the chairman of the Audit Committee, did not attend the annual general meeting held on 26 September 2012 due to his engagement in his own official business.

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 Reporting Period, the role of chairman was performed by Ms. Chan Wai Kay Katherine during the period from 1 April 2012 to 29 August 2012 and Mr. Zheng Qiyu from 29 August 2012 respectively. Mr. Xu Shengheng has been the chief executive officer during the Reporting Period.

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. Wu Xiaohua and Ms. Xu Genghong, the non-executive Directors, Mr. Jia Wenzeng, Mr. Hu Zhaoguang and Mr. Wu Desheng, the independent non-executive Directors have been appointed for a specific term and subject to re-election.

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.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the New CG code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills.

During the Reporting Period, the Company has arranged continuous professional development ("CPD") sessions for the Directors at its expense and has provided the relevant reading materials to Directors so as to develop and refresh their knowledge and skills, and to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, all Directors have participated in continuous professional development by attending CPD sessions and reading the relevant materials to develop and refresh their knowledge and skills and provided a record of training to the Company.

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, namely Mr. Hu Zhaoguang (chairman of remuneration committee), Mr. Jia Wenzeng and Mr. Wu Desheng and two executive Directors, namely Mr. Zheng Qiyu (the deputy chairman of remuneration committee) and Mr. Xu Shengheng.

During the Reporting Period, one meeting was 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 presently consists of one executive Director, namely Mr. Zheng Qiyu (the chairman of nomination committee), one non-executive Directors, namely Ms. Wu Xiaohua (the deputy chairman of nomination committee) and three independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Hu Zhaoguang and Mr. Wu Desheng.

During the Reporting Period, three meeting were held by the nomination committee.

AUDITORS' REMUNERATION

The audit works of the Group for the nine months ended 31 December 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 Reporting Period are set out below:

Services rendered	**Fee paid/payable nine months ended 31 December 2012** *HK$'000*
Audit services	**2,000**
Non-audit services	**120**
Total fee paid/payable for the Reporting Period	**2,120**

Corporate Governance Report

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.

The audit committee currently consists of three independent non-executive Directors, namely Mr. Jia Wenzeng (chairman of the audit committee), Mr. Hu Zhaoguang 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 Reporting 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.

COMPANY SECRETARY

During the Reporting Period, the Company Secretary (who is an employee of the Company) has duly complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; and

(d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

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 nine months ended 31 December 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 Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

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 at www.cgsenergy.com.hk 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.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. The contact details of the Company are provided in the annual report and the Company's website.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	Room 1301 York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong
Fax:	852-37539833
E-mail:	info@cgsenergy.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

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 28 to 112, which comprise the consolidated statement of financial position as at 31 December 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 nine months ended 31 December 2012, 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. 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the nine months ended 31 December 2012 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
22 March 2013

Consolidated Income Statement

For the nine months ended 31 December 2012

	Notes	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000 (Restated)
Turnover	7	**230,990**	318,079
Revenue	8	**230,990**	318,079
Cost of sales		**(151,710)**	(171,279)
Gross profit		**79,280**	146,800
Other income	9	**41,910**	18,809
Selling and distribution expenses		**(12,926)**	(9,236)
Administrative expenses		**(72,413)**	(67,739)
Other operating expenses		**(610)**	(354)
Allowance for doubtful debts		**(53)**	(4,095)
Reversal of allowance for doubtful debts		**52**	4,485
Profit from operations		**35,240**	88,670
Fair value changes on investment properties		**44,646**	22,685
Share of results of associates		**(423)**	(3,852)
Gain on deregistration of subsidiaries		**176**	669
Share-based payments		**(3,491)**	(8,992)
Finance costs	10	**(2,647)**	(925)
Profit before tax		**73,501**	98,255
Income tax expense	11	**(27,445)**	(43,895)
Profit for the period/year	12	**46,056**	54,360
Profit for the period/year attributable to:			
Owners of the Company		**45,951**	45,204
Non-controlling interests		**105**	9,156
		46,056	54,360
Earnings per share	15		
Basic (HK cents)		**1.86**	2.19
Diluted (HK cents)		**1.86**	2.19

Consolidated Statement of Comprehensive Income

For the nine months ended 31 December 2012

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000* (Restated)
Profit for the period/year	**46,056**	54,360
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations	**7,225**	16,196
Share of other comprehensive income of associates	**315**	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)
(Loss) gain on leasehold land and building revaluation	**(326)**	477
Reclassification adjustments for the cumulative gain (loss) transferred to profit or loss:		
– release of exchange translation reserve upon deregistration of subsidiaries	**98**	(1,203)
Other comprehensive income for the period/year	**7,312**	40,832
Total comprehensive income for the period/year	**53,368**	95,192
Total comprehensive income attributable to:		
Owners of the Company	**52,853**	84,774
Non-controlling interests	**515**	10,418
	53,368	95,192

Consolidated Statement of Financial Position

As At 31 December 2012

	Notes	31 December 2012 HK$'000	31 March 2012 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	16	**38,653**	34,638
Investment properties	17	**245,692**	152,592
Deposit paid for acquisition of land use rights	18	**238,500**	61,664
Goodwill	19	**445,850**	445,850
Intangible assets	20	**–**	971
Interests in associates	21	**61,334**	62,896
Available-for-sale investments	22	**498**	493
Other receivable	23	**–**	1,865
Deferred tax assets	24	**21,876**	21,690
		1,052,403	782,659
Current assets			
Inventories	25	**23,899**	20,779
Properties held for sale under development	26	**89,571**	–
Trade and retention receivables	27	**87,060**	56,456
Prepayments, deposits and other receivables	28	**73,878**	61,782
Consideration receivable	18	**53,486**	–
Amounts due from customers for contract work	29	**448,513**	413,690
Amount due from an associate	35	**4,237**	6,048
Held-for-trading financial assets	30	**45**	25
Short-term bank deposits	31	**–**	2,467
Cash held at non-bank financial institutions	31	**1,262**	–
Bank balances and cash	31	**156,459**	135,539
		938,410	696,786
Current liabilities			
Trade payables	32	**126,818**	103,658
Accrued liabilities, deposits received and other payables	33	**100,284**	70,445
Amounts due to customers for contract work	29	**12,121**	15,440
Amounts due to non-controlling shareholders	34	**16,117**	12,376
Amounts due to associates	35	**20,512**	15,727
Bank loan	36	**–**	2,467
Tax payable		**61,619**	49,896
		337,471	270,009
Net current assets		**600,939**	426,777
Total assets less current liabilities		**1,653,342**	1,209,436

Consolidated Statement of Financial Position

As At 31 December 2012

	Notes	31 December 2012 HK$'000	31 March 2012 HK$'000 (Restated)
Non-current liabilities			
Receipt in advance	*37*	**67,308**	32,408
Deferred income	*38*	**7,463**	14,794
Deferred tax liabilities	*24*	**38,753**	22,933
		113,524	70,135
Net assets		**1,539,818**	1,139,301
Capital and reserves			
Share capital	*39*	**226,053**	161,092
Reserves		**1,274,085**	939,041
Equity attributable to owners of the Company		**1,500,138**	1,100,133
Non-controlling interests		**39,680**	39,168
Total equity		**1,539,818**	1,139,301

The consolidated financial statements on pages 28 to 112 were approved and authorised for issue by the board of directors on 22 March 2013 and are signed on its behalf by:

Chan Wai Kay Katherine
Director

Zang Yiran
Director

Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2012

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Statutory reserve *HK$'000* *(Note b)*	Assets revaluation reserve *HK$'000*	Contributed surplus *HK$'000* *(Note c)*	Special reserve *HK$'000* *(Note d)*	Capital reserve *HK$'000* *(Note e)*	Share-based payment reserve *HK$'000*	Exchange translation reserve *HK$'000*	(Accumulated losses) Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
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	–	–	–	–	–	–	–	–	–	45,204	45,204	9,156	54,360
Other comprehensive income (expense) 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	–	–	–	–	–	–	–	–	14,934	–	14,934	1,262	16,196
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	–	–	–	–	15,082	–	39,570	1,262	40,832
Total comprehensive income for the year	–	–	–	24,488	–	–	–	–	15,082	45,204	84,774	10,418	95,192
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	8,067	8,067
Deregistration of subsidiaries *(note 42)*	–	–	–	–	–	–	–	–	–	–	–	(2,505)	(2,505)
Recognition of share-based payment expenses *(note 44)*	–	–	–	–	–	–	–	8,992	–	–	8,992	–	8,992
Reduction of issued share capital *(note 39(a))*	(483,276)	–	–	–	483,276	–	–	–	–	–	–	–	–
Utilisation of the contributed surplus *(note 39(a))*	–	–	–	–	(328,895)	–	–	–	–	328,895	–	–	–
Lapse of share option	–	–	–	–	–	–	–	(18,767)	–	18,767	–	–	–
Appropriations	–	–	117	–	–	–	–	–	–	(117)	–	–	–
At 31 March 2012, as restated	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	29,705	35,740	37,434	1,100,133	39,168	1,139,301

Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Assets revaluation reserve HK$'000	Contributed surplus HK$'000 (Note c)	Special reserve HK$'000 (Note d)	Capital reserve HK$'000 (Note e)	Share-based payment reserve HK$'000	Exchange translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2012, as restated	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	29,705	35,740	37,434	1,100,133	39,168	1,139,301
Profit for the period	–	–	–	–	–	–	–	–	–	45,951	45,951	105	46,056
Other comprehensive income (expense) for the period													
Loss on leasehold land and building revaluation	–	–	–	(326)	–	–	–	–	–	–	(326)	–	(326)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	315	–	315	–	315
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	6,815	–	6,815	410	7,225
Reclassification adjustments for the cumulative gain transferred to profit or loss:													
– release of exchange translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	–	98	–	98	–	98
Total other comprehensive income for the period	–	–	–	(326)	–	–	–	–	7,228	–	6,902	410	7,312
Total comprehensive income for the period	–	–	–	(326)	–	–	–	–	7,228	45,951	52,853	515	53,368
Deregistration of a subsidiary *(note 42)*	–	–	–	–	–	–	–	–	–	–	–	(3)	(3)
Recognition of share-based payment expenses *(note 44)*	–	–	–	–	–	–	–	3,491	–	–	3,491	–	3,491
Share repurchased and cancelled *(note 39(c))*	(974)	(3,765)	–	–	–	–	–	–	–	–	(4,739)	–	(4,739)
Issue of subscription shares *(note 39(b))*	65,935	282,565	–	–	–	–	–	–	–	–	348,500	–	348,500
Subscription shares issue expenses *(note 39(b))*	–	(100)	–	–	–	–	–	–	–	–	(100)	–	(100)
At 31 December 2012	226,053	903,241	2,211	24,162	154,381	(1,694)	32,235	33,196	42,968	83,385	1,500,138	39,680	1,539,818

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) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses, as detailed in note 39(a).

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

(e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year.

Consolidated Statement of Cash Flows

For the nine months ended 31 December 2012

	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**73,501**	98,255
Adjustments for:		
Allowance for doubtful debts	**53**	4,095
Government grants income	**(8,755)**	(10,343)
Amortisation of intangible assets	**969**	1,283
Change in fair value of held-for-trading financial assets	**(20)**	25
Depreciation of property, plant and equipment	**2,637**	3,337
Release of prepaid lease payments	**–**	284
Finance costs	**2,647**	925
Bank interest income	**(1,072)**	(746)
Imputed interest income on other receivable	**(346)**	(699)
Imputed interest income on receipt in advance	**(17,002)**	(5,424)
(Gain) loss on disposal of property, plant and equipment	**(2,523)**	131
Gain on deregistration of subsidiaries	**(176)**	(669)
Reversal of allowance for doubtful debts	**(52)**	(4,485)
Share-based payments	**3,491**	8,992
Share of results of associates	**423**	3,852
Gain on disposal of land use rights	**(4,924)**	–
Fair value changes on investment properties	**(44,646)**	(22,685)
Operating cash flows before movements in working capital	**4,205**	76,128
(Increase) decrease in inventories	**(2,900)**	5,408
(Increase) decrease in trade and retention receivables	**(30,172)**	18,388
(Increase) decrease in prepayments, deposits and other receivables	**(9,417)**	9,521
Increase in amounts due from customers for contract work	**(31,008)**	(124,865)
Additions to property held for sale under development	**(51,955)**	–
(Increase) decrease in cash held at non-bank financial institutions	**(1,262)**	692
Increase in trade payables	**22,064**	23,178
Increase (decrease) in accrued liabilities, deposits received and other payables	**16,496**	(23,849)
Increase in receipt in advance	**61,543**	36,651
(Decrease) increase in amounts due to customers for contract work	**(3,482)**	5,337
Cash (used in) generated from operations	**(25,888)**	26,589
PRC Enterprise Income Tax ("PRC EIT") paid	**(808)**	(1,458)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(26,696)**	25,131

Consolidated Statement of Cash Flows

For the nine months ended 31 December 2012

	Notes	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000
INVESTING ACTIVITIES			
Decrease in short-term bank deposits		**2,493**	–
Decrease in restricted bank balances		**–**	1,278
Purchase of property, plant and equipment		**(8,803)**	(16,634)
Proceeds on disposal of property, plant and equipment		**4,943**	49
Proceeds on disposal of deposit paid for acquisition of land use rights		**13,539**	–
Net cash inflow from acquisition of a subsidiary	*40*	**–**	1,795
Net cash inflow from acquisition of asset through acquisition of a subsidiary	*41*	**–**	378
Repayment from non-controlling shareholders		**–**	432
Repayment from an associate		**1,875**	–
Development cost paid for investment properties under construction or development		**(82,867)**	(56,752)
Dividends received from an associate		**1,454**	3,966
Deposits paid for acquisition of land use rights		**(238,500)**	–
Interest received		**1,072**	746
NET CASH USED IN INVESTING ACTIVITIES		**(304,794)**	(64,742)
FINANCING ACTIVITIES			
New bank loan raised		**–**	2,444
Government grants received		**1,375**	24,999
Repayment of bank loan		**(2,462)**	–
Advance from non-controlling shareholders		**3,610**	1,644
Proceeds from issue of subscription shares, net of issuing expenses	*39(b)*	**348,400**	–
Repurchase of shares	*39(c)*	**(4,739)**	–
Interest paid		**(53)**	(48)
Advance from (repayment to) an associate		**4,619**	(260)
NET CASH FROM FINANCING ACTIVITIES		**350,750**	28,779
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**19,260**	(10,832)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR		**135,539**	143,528
Effect of foreign exchange rate changes		**1,660**	2,843
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR, represented by bank balances and cash		**156,459**	135,539

Notes to the Consolidated Financial Statements

For the nine months ended 31 December 2012

1. GENERAL AND BASIS OF PREPARATION

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 49 and 21 respectively.

During the current financial period, the reporting period end date of the Company was changed from 31 March to 31 December to align the financial year end date of the Company with the financial year end date of the Company's PRC operating subsidiaries and thereby streamlining the preparation of the consolidated financial statements of the Company. Accordingly, the financial statements for the current period cover the nine-month period from 1 April 2012 to 31 December 2012. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a twelve-month period from 1 April 2011 to 31 March 2012 and therefore may not be comparable with amounts shown for the current period.

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

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

In the current period, 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 HKAS 1	As part of Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in 2012;
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets; and
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is *Annual Improvements to HKFRSs (2009 – 2011 Cycle).* The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In the current period, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012) *(Continued)*

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current period, the Group has applied the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets for the first time, which has not resulted any effect on the information in the consolidated statement of financial position as at 1 April 2011. Accordingly, the Group has not presented a third statement of financial position as at 1 April 2011 and the related notes.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current period. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group recognising deferred taxes on changes in fair value of the investment properties as the Group is subject to PRC EIT and Land Appreciation Tax ("LAT") on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being increased by approximately HK$9,119,000 as at 31 March 2012, with the corresponding debit being recognised in retained earnings. However, the deferred tax remained unchanged as at 1 April 2011 as the Group had no investment properties at 1 April 2011 and accordingly the amendments to HKAS 12 has not resulted in any effect on the information presented in the consolidated statement of financial position as at 1 April 2011.

The change in accounting policy has resulted in the Group's income tax expense for the nine months ended 31 December 2012 and year ended 31 March 2012 being increased by approximately HK$10,246,000 and HK$9,033,000 respectively and hence resulted in profit for the nine months ended 31 December 2012 and year ended 31 March 2012 being decreased by approximately HK$10,246,000 and HK$9,033,000 respectively.

Notes to the Consolidated Financial Statements

For the nine months ended 31 December 2012

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

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets *(Continued)*

Summary of the effects of the above changes in accounting policies

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1 April 2011 and 31 March 2012 is as follows:

	As at 1/4/2011 (originally stated)	Adjustment	As at 1/4/2011 (restated)	As at 31/3/2012 (originally stated)	Adjustment	As at 31/3/2012 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	–	–	–	13,814	9,119	22,933
Net assets	1,029,555	–	1,029,555	1,148,420	(9,119)	1,139,301
(Accumulated loss) retained earnings	(355,315)	–	(355,315)	46.464	(9,030)	37,434
Exchange translation reserve	20,658	–	20,658	35,826	(86)	35,740
Equity attributable to owners of the Company	1,006,367	–	1,006,367	1,109,249	(9,116)	1,100,133
Non-controlling interest	23,188	–	23,188	39,171	(3)	39,168
Total equity	1,029,555	–	1,029,555	1,148,420	(9,119)	1,139,301

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

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets *(Continued)*

Summary of the effects of the above changes in accounting policies *(Continued)*

The effects of changes in accounting policies described above on the consolidated income statement of the Group for the nine months ended 31 December 2012 and year ended 31 March 2012 is as follows:

	For the nine months ended 31 December 2012		
	Originally stated	**Adjustment**	**Restated**
	HK$'000	***HK$'000***	***HK$'000***
Income tax expense	**17,199**	**10,246**	**27,445**

	For the year ended 31 March 2012		
	Originally stated	Adjustment	Restated
	HK$'000	*HK$'000*	*HK$'000*
Income tax expense	34,862	9,033	43,895

The effects of the above changes in accounting policies on the Group's basic and diluted earnings per share for the current period and prior year are as follows:

Impact on basic and diluted earnings per share

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	Nine months ended 31 December 2012	Year ended 31 March 2012	**Nine months ended 31 December 2012**	Year ended 31 March 2012
	HK cents	*HK cents*	***HK cents***	*HK cents*
Figures before adjustment	**2.27**	2.63	**2.27**	2.62
Adjustments arising from changes in the Group's accounting policies in relation to:				
– application of amendments to HKAS 12 in respect of deferred taxes on investment properties	**(0.41)**	(0.44)	**(0.41)**	(0.43)
Figures after adjustment	**1.86**	2.19	**1.86**	2.19

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

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 HKFRSs	Annual Improvements 2009 – 2011 Cycle, except for the amendments to HKAS 1 early adopted[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Transition Guidance[2]
Amendments to HKFRS 10 HKFRS 12 and HKAS 27	Investment Entities[3]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HK (International Financial Reporting Interpretation Committee) – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The director does not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective 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.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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:

– All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as 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.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may affect the classification and measurement of the Group's available-for-sale financial assets and may have significant impact on amounts reported in respect of the Group's other financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

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 requirements 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. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 consolidation.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company anticipate that the application of these five standards may not have significant impact on the amounts reported in the consolidated financial statements under the current group structure.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity is investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

– obtain funds from one or more investors for the purpose of providing them with professional investment management services;

– commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

– measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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.

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 January 2013 and that 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.

HKAS 19 (as revised in 2011) Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

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

New and revised HKFRSs issued but not yet effective *(Continued)*

HKAS 19 (as revised in 2011) Employee Benefits *(Continued)*

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The directors of the Company anticipate that the application of the amendments to HKAS 19 has no significant impact on the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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 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 position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for leasehold land and 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 goods.

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.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

– assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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 capitalised 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from projects involving installment of shallow geothermal 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 (see the accounting policy in respect of construction contracts 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 basis.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount 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.

Any revaluation increase arising on revaluation of leasehold land classified as finance lease is recognised in other comprehensive income and accumulated in the assets 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 assets revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued leasehold land and building is recognised in profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost or revalued amounts of items of property, plant and equipment other than construction in progress 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 supply or administrative 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 the assets revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

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. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially 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 measureable.

When an investment property undergoes a change in use, evidenced by commencement of development with a view to sale in the future, the property is transferred to property held for sale under development as its fair value at the date of change in use.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, measured based on 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.

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. 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.

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 period/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.

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 other 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 on a systematic and rational basis 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 period/year. Taxable profit differs from profit before tax 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.

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. 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.

Properties held for sale under development

Properties held for sale under development are stated at the lower of cost and net realisable value. The cost of properties held for sale under development comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 other income in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 30.

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, 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).

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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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 and other receivable, assets that are assessed not to be impaired individually are, in addition, 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.

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 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 shareholders 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss.

Financial liabilities and equity instruments

Debt 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.

Repurchase of the Company's own equity is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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.

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.

Notes to the Consolidated Financial Statements

For the nine months ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

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 retained earnings.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 with finite useful lives 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.

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.

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

Critical judgements in applying the entity's accounting policies *(Continued)*

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.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has recognised deferred taxes on changes in fair value of investment properties as the Group is subject to PRC EIT and LAT on disposal of its investment properties.

De facto control over a subsidiary

The Group's management exercises its critical judgment when determining whether the Group has de facto control over an entity by evaluating, among other things: (i) the ability to demonstrate effective control during the shareholders' meetings and board meetings; (ii) the extent of reliance of the subsidiary on the financial and operational support from the Group; and (iii) the extent of involvement of directors of the subsidiary nominated by the Group in its operational and financial policy setting and decision making.

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.

Fair value of 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 17. 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. As at 31 December 2012, the carrying amounts of the investment properties are approximately HK$245,692,000 (31 March 2012: HK$152,592,000).

Net realisable value for properties held for sale under development

Properties held for sale under development remaining unsold at the end of the reporting period are stated at the lower of cost and net realisable value.

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

Key sources of estimation uncertainty *(Continued)*

Net realisable value for properties held for sale under development *(Continued)*

Net realisable value for properties held for sale under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. During the course of the assessment, management will also make reference to property valuations conducted by independent qualified professional valuers based on a method of valuation which involves certain estimates of market condition. Management is required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favourable than those projected by management, additional adjustments to the value of properties held for sale under development may be required. As at 31 December 2012, the carrying amounts of properties held for sale under development are approximately HK$89,571,000 (31 March 2012: nil).

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 are approximately HK$87,504,000 as at 31 December 2012 (31 March 2012: HK$86,760,000). 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.

During the nine months ended 31 December 2012, construction contracts income amounting to approximately HK$221,232,000 (year ended 31 March 2012: HK$313,127,000) was recognised in the consolidated income statement.

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.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment are impaired, at least on an annual basis. The impairment loss for property, plant and equipment 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 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 December 2012, the carrying amount of property, plant and equipment is approximately HK$38,653,000 (net of accumulated depreciation and impairment loss of approximately HK$14,301,000) (31 March 2012: carrying amount of approximately HK$34,638,000 (net of accumulated depreciation and impairment loss of approximately HK$13,954,000)).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill is approximately HK$445,850,000, net of accumulated impairment loss of nil (31 March 2012: carrying amount of approximately HK$445,850,000, net of accumulated impairment loss of nil). No impairment losses were recognised for the nine months ended 31 December 2012 and year ended 31 March 2012.

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 December 2012, the carrying amounts of inventories were approximately HK$23,899,000 (31 March 2012: HK$20,779,000). No impairment losses were recognised for the nine months ended 31 December 2012 and year ended 31 March 2012.

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 losses were recognised for the nine months ended 31 December 2012 and year ended 31 March 2012.

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

Key sources of estimation uncertainty *(Continued)*

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 December 2012, the carrying amounts of trade and retention receivables were of approximately HK$87,060,000, net of allowance for doubtful debts of approximately HK$8,560,000 (31 March 2012: the carrying amounts of trade and retention receivables were of approximately HK$56,456,000, net of allowance for doubtful debts of approximately HK$8,479,000) and other receivables are approximately HK$32,308,000, net of allowance for doubtful debts of approximately HK$2,269,000 (31 March 2012: the carrying amount of other receivables were of approximately HK27,388,000, net of allowance for doubt debts of approximately HK$2,269,000) respectively. The impairment losses recognised for the nine months ended 31 December 2012 were approximately HK$53,000 (year ended 31 March 2012: approximately HK$4,095,000).

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 December 2012, the carrying value of interests in associates is approximately HK$61,334,000 (31 March 2012: HK$62,896,000). No impairment losses were recognised for the nine months ended 31 December 2012 and year ended 31 March 2012.

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 36 and 31 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.

5. CAPITAL RISK MANAGEMENT *(Continued)*

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

	31 December 2012 *HK$'000*	31 March 2012 *HK$'000* (Restated)
Total borrowings *(note i)*	–	2,467
Equity *(note ii)*	**1,500,138**	1,100,133
Gearing ratio	**N/A**	0.2%

i) Total borrowings comprise the bank loan.

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31 December 2012 *HK$'000*	31 March 2012 *HK$'000*
Financial assets		
FVPTL – held for trading financial assets	**45**	25
Loans and receivables (including cash and cash equivalents)	**362,762**	250,329
Available-for-sale investments	**498**	493
Financial liabilities		
Amortised cost	**223,152**	190,557

(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, consideration receivable, amount due from an associate, 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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 period are as follows:

	Assets		**Liabilities**	
	31 December 2012	31 March 2012	**31 December 2012**	31 March 2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**7,645**	2,348	–	–
Bank balances and cash	**36,754**	54,393	–	–
Accrued liabilities and other payables	–	–	**4,668**	3,871
Total exposure	**44,399**	56,741	**4,668**	3,871

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (year ended 31 March 2012: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (year ended 31 March 2012: 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% (year ended 31 March 2012: 5%) change in foreign currency rates. A positive number below indicates an increase in profit after tax for the year where RMB strengthen 5% (year ended 31 March 2012: 5%) against the relevant currency. For a 5% (year ended 31 March 2012: 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.

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
HK$	(1,490)	(1,983)

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(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 nine months ended 31 December 2012 would increase/decrease by approximately HK$512,000 (year ended 31 March 2012: HK$566,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loan and deposit.

(iii) Other price risk

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

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

If the prices of the respective equity instruments had been 5% (year ended: 31 March 2012: 5%) higher/lower, profit after tax for the nine months ended 31 December 2012 would increase/decrease by approximately HK$2,000 (year ended 31 March 2012: approximately HK$1,000) 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 December 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

***Credit risk** (Continued)*

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 associates, 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 associates.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (31 March 2012: 100%) of the total trade and retention receivables as at 31 December 2012.

The Group has a concentration of credit risk as 9% and 36% (31 March 2012: 12% and 38%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 December 2012 within the shallow geothermal energy business segment.

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Within 1 year or on demand	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*
31 December 2012			
Non-derivative financial liabilities			
Trade payables	**126,818**	**126,818**	**126,818**
Accrued liabilities and other payables	**59,705**	**59,705**	**59,705**
Amounts due to non-controlling shareholders	**16,117**	**16,117**	**16,117**
Amount due to associates	**20,512**	**20,512**	**20,512**
	223,152	**223,152**	**223,152**

	Within 1 year or on demand	Total undiscounted cash flows	Carrying amount
	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	2,507	2,507	2,467
	190,597	190,597	190,557

(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.

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value *(Continued)*

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 December 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	**45**	**–**	**–**	**45**

	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

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

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 period/year is as follows:

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Sales and installation of shallow geothermal energy utilisation system	**221,232**	313,127
Maintenance services for shallow geothermal energy utilisation system	**4,239**	445
Rental income *(Note (i))*	**5,519**	4,507
	230,990	318,079

(i) An analysis of the Group's net rental income is as follows:

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Gross rental income	**5,519**	4,507
Less: direct operating expenses from investment properties that generated rental income during the period/year	**(677)**	(611)
Net rental income	**4,842**	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 geothermal energy segment – provision, installation and maintenance of shallow geothermal energy utilisation system;

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

(c) Properties investment and development segment – investment in properties for its potential rental income and sales.

No operating segment identified by the chief operating decision maker have been aggregated in arriving at the reportable segment of the Group.

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

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

For the nine months ended 31 December 2012

	Shallow geothermal energy	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**225,471**	**–**	**5,519**	**230,990**
Segment results	**41,148**	**(4,057)**	**68,417**	**105,508**
Share of results of associates				**(423)**
Unallocated other income				**1,870**
Unallocated expenses				**(33,401)**
Unallocated finance costs				**(53)**
Profit before tax				**73,501**

For the year ended 31 March 2012

	Shallow geothermal energy	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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)
Unallocated finance costs				(48)
Profit before tax				98,255

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 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

	31 December 2012	31 March 012
	HK$'000	*HK$'000*
Shallow geothermal energy	**1,146,007**	1,077,916
Securities investment and trading	**9,646**	3,084
Properties investment and development	**591,254**	169,805
Total segment assets	**1,746,907**	1,250,805
Unallocated corporate assets	**243,906**	228,640
Consolidated total assets	**1,990,813**	1,479,445

Segment liabilities

	31 December 2012	31 March 2012
	HK$'000	*HK$'000* (Restated)
Shallow geothermal energy	**225,920**	201,783
Securities investment and trading	**3,192**	2,389
Properties investment and development	**84,882**	32,573
Total segment liabilities	**313,994**	236,745
Unallocated corporate liabilities	**137,001**	103,399
Consolidated total liabilities	**450,995**	340,144

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, short-term bank deposits, amount due from an associate, 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, deferred tax liabilities and tax payable.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the nine months ended 31 December 2012

	Shallow geothermal energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment and development *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	7,811	42	950	8,803
Development cost paid to investment properties under construction	–	–	82,867	82,867
Additions to properties held for sale under development	–	–	51,955	51,955
Reversal of allowance for doubtful debts	(52)	–	–	(52)
Depreciation and amortisation	2,661	296	649	3,606
Allowance for doubtful debts	53	–	–	53
Fair-value changes on held-for-trading financial assets	–	(20)	–	(20)
Fair-value changes on investment properties	–	–	(44,646)	(44,646)
Imputed interest income on other receivable	(346)	–	–	(346)
Imputed interest income on receipt in advance	–	–	(17,002)	(17,002)
Imputed interest expense on receipt in advance	–	–	2,594	2,594
Gain on disposal of property, plant and equipments	(2,523)	–	–	(2,523)
Gain on disposal of land use right	–	–	(4,924)	(4,924)
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	61,334	–	–	61,334
Share of results of associates	423	–	–	423
Interest income	(1,072)	–	–	(1,072)
Interest expenses	53	–	–	53
Income tax expenses	11,985	–	15,460	27,445

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 March 2012

	Shallow geothermal energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment and development *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions 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	3,848	418	638	4,904
Allowance for doubtful debts	4,095	–	–	4,095
Fair-value changes on held-for-trading financial assets	–	25	–	25
Fair-value changes on investment properties	–	–	(22,685)	(22,685)
Imputed interest income on other receivable	(699)	–	–	(699)
Imputed interest income on receipt in advance	–	–	(5,424)	(5,424)
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	–	14,704	43,895

Note: Non-current assets excluded goodwill, investment properties, deposit paid for acquisition of land use rights, interests in associates, available-for-sale investments, non-current portion of other receivable and deferred tax assets.

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 located 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 period/year.

9. OTHER INCOME

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Bank interest income	**1,072**	746
Government grants *(Note)*	**8,755**	10,343
Gain on disposal of property, plant and equipment	**2,523**	–
Gain on disposal of land use rights *(note 18)*	**4,924**	–
Change in fair value of held-for-trading financial assets	**20**	–
Compensation received	**2,387**	–
Sale of scrap materials	**4,311**	797
Imputed interest income on other receivables	**346**	699
Imputed interest income on receipt in advance	**17,002**	5,424
Others	**570**	800
	41,910	18,809

Note: Included in the amount of government grants recognised during the nine months ended 31 December 2012, approximately HK$1,375,000 (year ended 31 March 2012: HK$3,497,000) 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 as other income immediately for the period/year. Approximately HK$7,380,000 (year ended 31 March 2012: HK$6,846,000) were government grants utilised during the period/year (note 38).

10. FINANCE COSTS

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Interest on bank loan wholly repayable within five years	**53**	48
Imputed interest expense on receipt in advance	**2,594**	877
	2,647	925

11. INCOME TAX EXPENSE

	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000 (Restated)
Current tax:		
PRC EIT	11,984	28,871
Under provision in prior years:		
PRC EIT	1	–
Hong Kong Profits Tax	–	223
Deferred tax: *(note 24)*		
PRC EIT	5,214	5,768
LAT	10,246	9,033
	27,445	43,895

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 period/year.

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.

According to the requirements of the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例) effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (中華人民共和國土地增值稅暫行條例實施細則) effective from 27 January 1995 as well, all income from the sale or transfer of land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value as calculated according to the Provisional Regulations of the PRC on LAT and its Detailed Implementation Rules.

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprise in 2008 and the income tax rate applicable to these subsidiaries are 15% for the nine months ended 31 December 2012 (year ended 31 March 2012: 15%).

11. INCOME TAX EXPENSE *(Continued)*

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

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000* (Restated)
Profit before tax	**73,501**	98,255
Tax at the domestic income tax rate	**20,179**	27,197
Under-provision in prior years	**1**	223
Tax effect of share of results of associates	**68**	912
Tax effect of expenses not deductible for tax purpose	**8,147**	10,022
Tax effect on investment properties for deferred tax purposes	**4,298**	9,033
Tax effect of income not taxable for tax purpose	**(3,117)**	(657)
Income tax on concessionary rate	**(2,131)**	(2,835)
Tax expense for the period/year	**27,445**	43,895

12. PROFIT FOR THE PERIOD/YEAR

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Profit for the period/year has been arrived at after (crediting)/charging:		
Staff costs, including directors' emoluments *(note 13)*		
– Wages and salaries	**25,543**	31,154
– Retirement benefits scheme contributions	**4,239**	3,641
– Share-based payments	**3,491**	8,992
	33,273	43,787
Cost of inventories sold	**151,710**	171,279
Change in fair value of held-for-trading financial assets	**(20)**	25
Depreciation of property, plant and equipment	**2,637**	3,337
Amortisation of intangible assets	**969**	1,283
Release of prepaid lease payments	**–**	284
Auditor's remuneration	**2,291**	1,588
Minimum lease payments under operating leases in respect of land and buildings	**5,495**	7,681
Loss on disposal of property, plant and equipment	**–**	131
Research costs (included in administrative expenses)*	**16,856**	5,148

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

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

(a) Directors and the chief executive

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

	For the nine months ended 31 December 2012				
	Fees *HK$'000*	**Salaries and other benefits** *HK$'000*	**Retirement benefits scheme contributions** *HK$'000*	**Share-based payments** *HK$'000*	**Total** *HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,440	11	–	1,451
Mr. Xu Shengheng*	–	1,440	11	–	1,451
Mr. Wu Shu Min *(Note 9)*	–	128	–	–	128
Mr. Zheng Qiyu *(Note 5)*	–	–	–	–	–
Non-executive directors:					
Ms. Wu Xiaohua *(Note 5)*	–	–	–	–	–
Ms. Xu Genghong *(Note 5)*	–	–	–	–	–
Mr. Zang Yiran *(Note 6)*	–	216	34	–	250
Mr. Fu Hui Zhong *(Note 9)*	20	–	–	–	20
Ms Luk Hoi Man *(Note 2)*	92	–	–	–	92
Independent non-executive directors:					
Mr. Hu Zhaoguang *(Note 4)*	–	–	–	–	–
Mr. Chow Wan Hoi, Paul *(Note 10)*	40	–	–	–	40
Mr. Jia Wenzeng	103	–	–	–	103
Mr. Wu DeSheng	106	–	–	–	106
Total	361	3,224	56	–	3,641

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors and the chief executive *(Continued)*

	For the year ended 31 March 2012				
	Fees *HK$'000*	**Salaries and other benefits** *HK$'000*	**Retirement benefits scheme contributions** *HK$'000*	**Share-based payments** *HK$'000*	**Total** *HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,908	12	–	1,920
Mr. Xu Shengheng*	–	1,908	12	–	1,920
Mr. Wu Shu Min	–	1,920	–	–	1,920
Mr. Soo Kim Fui, Jeffrey *(Note 8)*	–	377	–	–	377
Non-executive directors:					
Mr. Fu Hui Zhong	240	–	–	–	240
Ms Luk Hoi Man *(Note 2)*	7	–	–	–	7
Independent non-executive directors:					
Ms. Chan Man Kuen, Laura *(Note 7)*	43	–	–	–	43
Mr. Chow Wan Hoi, Paul *(Note 10)*	120	–	–	–	120
Mr. Jia Wenzeng	120	–	–	–	120
Mr. Yau Kiam Fee *(Note 3)*	57	–	–	–	57
Mr. Wu DeSheng *(Note 1)*	–	–	–	–	–
Total	587	6,113	24	–	6,724

Notes:

(1) Appointed on 21 March 2012

(2) Appointed on 21 March 2012 and resigned on 24 August 2012

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

(4) Appointed on 30 July 2012

(5) Appointed on 24 August 2012

(6) Appointed on 24 August 2012 and re-designated as executive director on 22 March 2013

(7) Retired on 10 August 2011

(8) Resigned on 15 October 2011

(9) Resigned on 24 April 2012

(10) Resigned on 31 July 2012

* Mr. Xu Shengheng is also the chief executive of the Company for the period/year and his emoluments disclosed above include those for services rendered by him as the chief executive.

None of the directors and the chief executive waived or agreed to waive any emoluments paid by the Company during the period/year.

During the period/year, no emoluments were paid by the Group to any of the directors and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees

Of the five individuals with the highest emoluments in the Group, three (year ended 31 March 2012: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining two (year ended 31 March 2012: two) individuals were as follows:

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Salaries and other benefits	**896**	875
Retirement benefits scheme contributions	**21**	45
	917	920

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

During the period/year, 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.

14. DIVIDENDS

Final dividend for the nine months ended 31 December 2012

A final dividend of HK0.4 cents per ordinary share in respect of the nine months ended 31 December 2012 has been proposed by the directors.

A final dividend for the nine months ended 31 December 2012 is subject to the approval by the Company's shareholders in the forthcoming annual general meeting.

Final dividend for the year ended 31 March 2012

No dividend was paid or proposed for the year ended 31 March 2012, nor has any dividend been proposed since the end of the reporting period.

15. EARNINGS PER SHARE

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

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000* (Restated)
Earnings		
Profit for the period/year attributable to owners of the Company and for the purpose of basic and diluted earnings per share	**45,951**	45,204

	Nine months ended 31 December 2012 *'000*	Year ended 31 March 2012 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,474,655**	2,065,307
Effect of dilutive potential ordinary shares:		
Share options *(Note)*	**–**	2,001
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,474,655**	2,067,308

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

Note: The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price of the shares for the nine months ended 31 December 2012.

16. 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 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 properties *(note 17)*	–	–	–	–	–	–	(11,435)	(11,435)
As 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
At 1 April 2012	**8,111**	**1,347**	**18,434**	**2,406**	**4,393**	**8,077**	**5,824**	**48,592**
Exchange realignment	**285**	**33**	**189**	**8**	**21**	**81**	**84**	**701**
Additions	**–**	**1,313**	**2,066**	**278**	**496**	**1,551**	**3,099**	**8,803**
Disposals	**–**	**–**	**(4,176)**	**–**	**–**	**(406)**	**–**	**(4,582)**
Revaluation	**(560)**	**–**	**–**	**–**	**–**	**–**	**–**	**(560)**
At 31 December 2012	**7,836**	**2,693**	**16,513**	**2,692**	**4,910**	**9,303**	**9,007**	**52,954**
Comprising								
At cost	**–**	**2,693**	**16,513**	**2,692**	**4,910**	**9,303**	**9,007**	**45,118**
At valuation	**7,836**	**–**	**–**	**–**	**–**	**–**	**–**	**7,836**
	7,836	**2,693**	**16,513**	**2,692**	**4,910**	**9,303**	**9,007**	**52,954**

16. 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 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
At 1 April 2012	**–**	**1,194**	**2,704**	**2,308**	**3,503**	**4,245**	**–**	**13,954**
Exchange realignment	**–**	**9**	**30**	**34**	**18**	**15**	**–**	**106**
Provided for the period	**234**	**65**	**996**	**123**	**315**	**904**	**–**	**2,637**
Eliminated on revaluation	**(234)**	**–**	**–**	**–**	**–**	**–**	**–**	**(234)**
Eliminated on disposal	**–**	**–**	**(1,768)**	**–**	**–**	**(394)**	**–**	**(2,162)**
At 31 December 2012	**–**	**1,268**	**1,962**	**2,465**	**3,836**	**4,770**	**–**	**14,301**
CARRYING VALUES								
At 31 December 2012	**7,836**	**1,425**	**14,551**	**227**	**1,074**	**4,533**	**9,007**	**38,653**
At 31 March 2012	8,111	153	15,730	98	890	3,832	5,824	34,638

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 of the Group was valued on 31 December 2012 and 31 March 2012 by Peak Vision Appraisals Limited ("Peak Vision"), an independent professionally qualified valuer not connected to the Group, on an open market value basis and the revalued amount approximate its carrying value as at 31 December 2012.

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

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

If leasehold 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$7,336,000 (31 March 2012: HK$7,634,000).

17. INVESTMENT PROPERTIES

	Investment properties under construction or development at fair value	Investment properties 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 *(notes 16)* and prepaid lease payments	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 and 1 April 2012	**126,732**	**25,860**	**152,592**
Development costs paid	**811**	**82,056**	**82,867**
Transfer to properties held for sale under development *(note 26)*	**(36,680)**	–	**(36,680)**
Fair value gains recognised in the consolidated income statement	**44,646**	–	**44,646**
Exchange realignment	**1,190**	**1,077**	**2,267**
At 31 December 2012	**136,699**	**108,993**	**245,692**

The above investment properties are situated in the PRC under medium term leases.

The fair values of investment properties under construction or development at 31 December 2012, 31 March 2012 and at dates of transfer from property, plant and equipment and prepaid lease payments and transfer to properties held for sale under development have been arrived at on the basis of valuations carried out on those dates by Peak Vision.

17. 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, 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.

18. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 March 2012, deposit paid for acquisition of land use rights represents RMB50,000,000 (equivalent to approximately HK$61,664,000) paid to an independent third party as a deposit for the acquisition of land use rights in the PRC. The Group was in the process of obtaining the land use rights certificate from the relevant government authority.

On 14 June 2012, the Group had transferred the above contract of acquisition of land use rights to an independent third party in consideration of RMB54,000,000 (approximately HK$66,469,000). This resulted in gain on disposal of the deposit paid for acquisition of land use right of approximately HK$4,924,000. The Group has received from the independent third party of RMB11,000,000 (approximately HK$13,539,000) during the nine months ended 31 December 2012 and the remaining consideration of RMB43,000,000 (approximately HK$53,486,000) is included in consideration receivables under current assets as at 31 December 2012.

Subsequent to 31 December 2012, the Group has further received RMB20,000,000 (approximately HK$25,000,000) from the independent third party, and the remaining balance of RMB23,000,000 (approximately HK$28,750,000) will be settled on or before 15 May 2013 in accordance with the settlement agreement entered into between the Group and the independent third party.

As at 31 December 2012, deposit paid for acquisition of land use rights represents RMB190,800,000 (approximately HK$238,500,000) paid to Dalian Junzhou New District Land and Housing Authority as a deposit for the acquisition of a piece of land situated at Xiao Yao Bay of Jin Zhou Xin Qu in Dalian City ("the Land"). Subsequent to the reporting period, the Group had entered into a strategic co-operation framework agreement with an independent third party in addition to the above deposit paid, as detailed in note 50(iii).

19. GOODWILL

	HK$'000
COST	
At 1 April 2011	444,551
Acquisition of a subsidiary *(note 40)*	1,299
At 31 March 2012 and 31 December 2012	445,850
CARRYING VALUES	
At 31 December 2012	445,850
At 31 March 2012	445,850

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 geothermal energy segment.

The Group conducted impairment review on goodwill attributable to the shallow geothermal energy segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the shallow geothermal 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 three-year period, with discount rate of 14.16% (year ended 31 March 2012: 11.20%) per annum. The cash flows beyond the three-year period were extrapolated using a steady growth rate of 3% (year ended 31 March 2012: 3%). 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 geothermal energy segment to exceed its aggregate recoverable amount.

20. INTANGIBLE ASSETS

	Technical know-how
	HK$'000
COST	
At 1 April 2011	5,932
Exchange realignment	220
At 31 March 2012	6,152
Exchange realignment	53
At 31 December 2012	6,205
AMORTISATION	
At 1 April 2011	3,746
Exchange realignment	152
Charge for the year	1,283
At 31 March 2012	5,181
Exchange realignment	55
Charge for the period	969
At 31 December 2012	6,205
CARRYING VALUES	
At 31 December 2012	–
At 31 March 2012	971

The above technical know-how was acquired through the acquisition of certain subsidiaries of the Group 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.

21. INTERESTS IN ASSOCIATES

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Cost of unlisted investments in associates	**71,731**	71,121
Share of post-acquisition results and other comprehensive income, net of dividends received	**(10,397)**	(8,225)
	61,334	62,896

21. INTERESTS IN ASSOCIATES *(Continued)*

As at 31 December 2012 and 31 March 2012, 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		Principal activity
				31 December 2012	31 March 2012	
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 (31 March 2012: HK$482,000) arising on acquisition of an associate during the period ended 30 September 2009.

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

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Current assets	**85,834**	98,822
Non-current assets	**91,114**	86,630
Total assets	**176,948**	185,452
Current liabilities and total liabilities	**18,758**	17,357
Net assets	**158,190**	168,095
Group's share of net assets of associates	**61,334**	62,896

21. INTERESTS IN ASSOCIATES *(Continued)*

	Nine months ended 31 December 2012 HK$'000	Year ended 31 March 2012 HK$'000
Revenue	**43,368**	52,069
Loss for the period/year	**(1,087)**	(8,786)
Other comprehensive income for the period/year	**832**	3,175
Group's share of losses and other comprehensive income of associates for the period/year	**(108)**	(2,501)

22. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2012 HK$'000	31 March 2012 HK$'000
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note)*	**498**	493

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.

23. OTHER RECEIVABLE

As at 31 March 2012, the balance of approximately HK$1,865,000 represented non-current portion of 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 had been included in other receivables under current assets. The Group did not hold any collateral over these balances.

On 28 December 2012, the Group entered into a contract with the counter party to settle the consideration receivable by properties and the non-current portion of the amount was transferred to other receivable under current assets during the nine months ended 31 December 2012.

As at 31 December 2012 and up to the date of this report, the ownership of the properties were not yet transferred to the Group. The Group was in the process of obtaining the properties ownership certificates from the relevant government authority.

24. DEFERRED TAX

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current period and prior year:

	Allowance for doubtful debts HK$'000	Revaluation of investment properties HK$'000 (Restated)	Total HK$'000 (Restated)
At 1 April 2011	21,570	–	21,570
Exchange realignment	217	(235)	(18)
Charged to equity during the year	–	(7,994)	(7,994)
Charged to consolidated income statement for the year	(97)	(14,704)	(14,801)
At 31 March 2012, as restated	**21,690**	**(22,933)**	**(1,243)**
Exchange realignment	**186**	**(360)**	**(174)**
Charged to consolidated income statement for the period	–	**(15,460)**	**(15,460)**
At 31 December 2012	**21,876**	**(38,753)**	**(16,877)**

For the purpose of presentation on the consolidated statement of financial position, the deferred tax balances are analysed as follows:

	31 December 2012 HK$'000	31 March 2012 HK$'000 (Restated)
Deferred tax assets	**21,876**	21,690
Deferred tax liabilities	**(38,753)**	(22,933)
	(16,877)	(1,243)

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 RMB254,846,000 (31 March 2012: RMB210,762,000) 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.

25. INVENTORIES

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Raw materials	**20,530**	19,207
Work-in-progress	**–**	1,567
Finished goods	**3,369**	5
	23,899	20,779

26. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	HK$'000
At 1 April 2011 and 31 March 2012	–
Transfer from investment properties *(note 17)*	36,680
Additions	51,955
Exchange realignment	936
At 31 December 2012	89,571

Upon the change of intention to redevelop for sale after completion, the property was transferred from investment properties to properties held for sale under development based on the valuation at date of transfer performed by Peak Vision, an independent professionally qualified valuers not connected to the Group.

The above properties held for sale under development are situated in the PRC under medium-term leases.

27. TRADE AND RETENTION RECEIVABLES

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Trade receivables	**59,550**	54,747
Retention receivables	**36,070**	10,188
Less: allowance for doubtful debts	**(8,560)**	(8,479)
	87,060	56,456

The Group generally grants credit period of 30 to 180 days to its customer. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon the customers' request and normally within 365 days. The Group does not hold any collateral over these balances. The retention receivables credit period were usually one to two years, and different on case by case basis. The following aging analysis of trade receivables is presented based on the invoice date at the end of the reporting period.

27. TRADE AND RETENTION RECEIVABLES *(Continued)*

	31 December 2012 HK$'000	31 March 2012 HK$'000
Within 90 days	**6,124**	2,002
91 to 180 days	**2,910**	3,495
181 to 365 days	**11,321**	10,061
Over 365 days	**30,635**	30,710
	50,990	46,268

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$30,635,000 (31 March 2012: HK$30,710,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable.

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

	31 December 2012 HK$'000	31 March 2012 HK$'000
Over 365 days	**30,635**	30,710

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:

	31 December 2012 HK$'000	31 March 2012 HK$'000
Balance at the beginning of the period/year	**8,479**	8,568
Exchange realignment	**80**	301
Impairment losses recognised on trade receivables	**53**	4,095
Impairment losses reversed	**(52)**	(4,485)
Balance at the end of the period/year	**8,560**	8,479

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$8,560,000 (31 March 2012: HK$8,479,000) which have been placed in severe financial difficulties.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Prepayments	**13,620**	13,828
Deposits	**27,950**	20,566
Other receivables	**34,577**	29,657
Less: allowance for doubtful debts	**(2,269)**	(2,269)
	73,878	61,782

The Group did not hold any collateral over these balances.

As at 31 December 2012, included in the other receivables, approximately HK$15,488,000 (31 March 2012: HK$13,623,000) were consideration receivable from disposal of a subsidiary as detailed in note 23.

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

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Balance at beginning of period/year	**2,269**	2,269
Impairment losses recognised on other receivables	**–**	–
Balance at end of the period/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 (31 March 2012: HK$2,269,000) which have been placed in severe financial difficulties.

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

	31 December 2012 HK$'000	31 March 2012 HK$'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**602,980**	975,055
Less: progress billings	**(166,588)**	(576,805)
	436,392	398,250
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**448,513**	413,690
Amounts due to customers for contract work	**(12,121)**	(15,440)
	436,392	398,250

As at 31 December 2012, retentions held by customers for contract works amounted to approximately HK$26,692,000 (31 March 2012: HK$4,279,000). Advances received from customers for contract works included in deposits received amounted to approximately HK$6,717,000 (31 March 2012: HK$3,897,000). 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.

30. HELD-FOR-TRADING FINANCIAL ASSETS

	31 December 2012 HK$'000	31 March 2012 HK$'000
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**45**	25

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.

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

As at 31 March 2012, short-term bank deposits represent the fixed bank deposits carried interest at rates ranged from 2.5% to 3% per annum of which the maturity day is over 3 months.

As at 31 December 2012, cash held at non-bank financial institutions carried interest at 0.0001% (31 March 2012: nil) per annum.

Bank balances carried interest at market rates of 0.35% (year ended 31 March 2012: 0.36%) per annum.

32. TRADE PAYABLES

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

	31 December 2012 HK$'000	31 March 2012 HK$'000
Within 90 days	**12,406**	39,765
91 to 180 days	**7,105**	16,685
181 to 365 days	**26,686**	10,355
Over 365 days	**80,621**	36,853
	126,818	103,658

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 timeframe.

33. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	31 December 2012 HK$'000	31 March 2012 HK$'000
Accrued liabilities	16,616	18,066
Deposits received	27,568	14,116
Receipt in advance *(note 37)*	13,011	–
Other payables	43,089	38,263
	100,284	70,445

34. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

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

35. AMOUNTS DUE FROM (TO) ASSOCIATES

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

36. BANK LOAN

	31 December 2012 HK$'000	31 March 2012 HK$'000
Unsecured bank loan repayable within one year	–	2,467

The above bank loan carried interest at variable rates during the year ended 31 March 2012 and was denominated in RMB. The effective interest rate during the year ended 31 March 2012 is 7.88% and the amount was fully repaid during the nine months ended 31 December 2012.

37. 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 a portion of the receipt in advance is included under non-current liabilities. The receipt in advance due within one year of approximately HK$13,011,000 as at 31 December 2012 (31 March 2012: nil) has been included in receipt in advance under current liabilities (note 33).

38. DEFERRED INCOME

	31 December 2012	31 March 2012
	HK$'000	*HK$'000*
Balance at beginning of the period/year	**14,794**	–
Exchange realignment	**49**	138
Government grants received	**–**	21,502
Amortisation of deferred income on government grants	**(7,380)**	(6,846)
Balance at end of the period/year	**7,463**	14,794

As at 31 December 2012, government grants of approximately HK$7,463,000 (31 March 2012: HK$14,794,000) were designated for certain research projects. The amount is stated as non-current liabilities as at 31 December 2012 in the consolidated statement of financial position as the directors of the Company are of the opinion that certain conditions in respect of these grants will not be fulfilled within next twelve months from 31 December 2012.

39. SHARE CAPITAL

	Number of shares US$0.01 each		**Number of shares US$0.04 each**		**Share capital**		**Share capital**	
	31 December 2012	31 March 2012	**31 December 2012**	31 March 2012	**31 December 2012**	31 March 2012	**31 December 2012**	31 March 2012
	'000	*'000*	***'000***	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares								
Authorised:								
At beginning of the period/year	**16,000,000**	–	–	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 period/year	**16,000,000**	16,000,000	–	–	**160,000**	160,000	**1,248,000**	1,248,000
Issued and fully paid:								
At beginning of the period/year	**2,065,307**	–	–	2,065,307	**20,653**	82,612	**161,092**	644,368
Reduction of issued share capital *(Note a)*	–	2,065,307	–	(2,065,307)	–	(61,959)	–	(483,276)
Issue of subscription shares *(Note b)*	**850,000**	–	–	–	**8,500**	–	**65,935**	–
Shares repurchased and cancelled *(Note c)*	**(12,480)**	–	–	–	**(125)**	–	**(974)**	–
At end of the period/year	**2,902,827**	2,065,307	–	–	**29,028**	20,653	**226,053**	161,092

39. SHARE CAPITAL *(Continued)*

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) The subscription of shares by China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited was completed on 20 August 2012. A total of 850,000,000 ordinary shares of US$0.01 each were issued at subscription price of HK$0.41 per share for cash totaling HK$348,500,000, representing approximately 29.16% of the issued share capital of the Company as at 20 August 2012 as enlarged by the subscription. The excess of the issue price over the par value of the shares, net of share issued expenses of HK$100,000, were credited to the share premium account of the Company. All the subscription shares rank pari passu with the existing shares. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 13 April 2012, 5 June 2012 and 20 August 2012 respectively.

(c) During the nine months ended 31 December 2012, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of purchase	No. of ordinary shares of US0.01 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
September 2012	10,584,000	0.4	0.36	4,017
October 2012	1,896,000	0.38	0.375	722

The above shares were cancelled upon repurchase.

40. ACQUISITION OF A SUBSIDIARY

For the year ended 31 March 2012

On 1 April 2011, there was injection of capital of RMB5,100,000 (approximately HK$6,059,000) by 恒有源科技發展集團有限公司("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.

40. ACQUISITION OF A SUBSIDIARY *(Continued)*

For the year ended 31 March 2012 *(Continued)*

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)

40. ACQUISITION OF A SUBSIDIARY *(Continued)*

For the year ended 31 March 2012 *(Continued)*

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 March 2012 is approximately HK$3,458,000 (equivalent to approximately RMB2,830,000) attributable to 金恒源. Revenue for the year ended 31 March 2012 includes approximately HK$40,478,000 (equivalent to approximately RMB33,133,000) attributable to 金恒源.

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 ended 31 March 2012 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.

41. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

For the year ended 31 March 2012

On 1 April 2011, 恒有源, a subsidiary of the Group had entered into a structure contract with北京市四博連通用机械新技術公司("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)

42. DEREGISTRATION OF SUBSIDIARIES

For the nine months ended 31 December 2012

During the nine months ended 31 December 2012, the Group deregistered an non wholly-owned subsidiary, namely 北京恒有源康体科技发展有限公司.

Net liabilities of the deregistered subsidiary at the date of deregistration were as follows:

	HK$'000
Net liabilities disposed of:	
Prepayments and other receivables	6
Accrued liabilities and other payables	(277)
Net liabilities	(271)
Non-controlling interests	(3)
Release of exchange translation reserve	98
Gain on deregistration	(176)
Net cash outflow arising on deregistration	
Bank balances and cash	–

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

42. DEREGISTRATION OF SUBSIDIARIES *(Continued)*

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 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 ended 31 March 2012.

43. COMMITTMENTS

(i) Operating lease

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:

	31 December 2012 HK$'000	31 March 2012 HK$'000
Within one year	**42,566**	94,711
In the second to fifth years, inclusive	**37,778**	301
Over five years	**209,300**	163,619
	289,644	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:

	31 December 2012 HK$'000	31 March 2012 HK$'000
Within one year	**3,044**	5,013
In the second to fifth years, inclusive	**3,570**	3,884
Over five years	**3,271**	2,642
	9,885	11,539

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

43. COMMITTMENTS *(Continued)*

(ii) Others

	31 December 2012 HK$'000	31 March 2012 HK$'000
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	**26,121**	25,899
– Investment properties under construction	**62,086**	105,177
– Acquisition of property, plant and equipment	**373**	6,369
– Acquisition of land use rights	**–**	173,892
	88,580	311,337

44. 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.

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

Share Option Plan 2001 *(Continued)*

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.

The Share Option Plan 2001 was expired during the year ended 31 March 2012.

Share Option Plan 2010

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

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

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

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Plan 2010 and any other schemes must not exceed 30% of the total number of shares of the Company in issue from time to time.

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

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

44. 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 2010	29 May 2009 to 21 December 2011		
		29 May 2007 to 28 May 2010	29 May 2010 to 21 December 2011		
Grant 5	23 June 2009	N/A	23 June 2009 to 21 December 2011	HK$0.0826	HK$0.3304

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

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

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

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

Nine months ended 31 December 2012

Date of grant	Outstanding at 1 April 2012	Granted during the period	Exercised during the period	Lapsed during the period	Transferred during the period	Outstanding at 31 December 2012
Directors						
9 September 2010	47,200,000	–	–	–	(17,100,000)	30,100,000
Employees						
9 September 2010	118,292,000	–	–	–	11,600,000	129,892,000
Others						
9 September 2010	–	–	–	–	5,500,000	5,500,000
	165,492,000	–	–	–	–	165,492,000
Exercisable at the end of period						133,825,000
Weighted average exercise price	HK$0.426	–	–	–	HK$0.426	HK$0.426

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

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

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$3,491,000 for the nine months ended 31 December 2012 (year ended 31 March 2012: HK$8,992,000) in relation to share options granted by the Company.

45. 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 nine months ended 31 December 2012, the Group made retirement benefits scheme contributions totaling HK$4,239,000 (year ended 31 March 2012: HK$3,641,000). At the end of the reporting period, there are no forfeited contributions.

46. RELATED PARTY TRANSACTIONS

(a) Amounts due to non-controlling shareholders and associates are included in the consolidated statement of financial position. The terms are set out in notes 34 and 35 respectively.

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

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Operating lease payments paid to a non-controlling shareholder	**1,716**	3,215
Rental income from an associate	**160**	4,507
Sales to an associate	**6**	–
Sales of plant and machinery to an associate	–	20,392
Purchase from an associate	**14,385**	18,902
	16,267	47,016

The above transactions were made on terms mutually agreed between both parties.

46. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	Nine months ended 31 December 2012 *HK$'000*	Year ended 31 March 2012 *HK$'000*
Short-term benefits	**4,425**	7,576
Retirement benefits scheme contributions	**77**	57
Share-based payment	**3,491**	8,992
	7,993	16,625

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

47. 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.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2012 HK$'000	31 March 2012 HK$'000
Non-current assets			
Property, plant and equipment		**45**	11
Deposit paid for acquisition of land use rights		**238,500**	–
Interests in subsidiaries	(a)	**836,134**	836,134
		1,074,679	836,145
Current assets			
Prepayments, deposits and other receivables		**6,551**	1,445
Amounts due from subsidiaries	(a)	**255,791**	160,760
Bank balances and cash		**28,808**	42,845
		291,150	205,050
Current liabilities			
Accrued liabilities and other payables		**2,000**	1,390
Amounts due to subsidiaries	(b)	**35,318**	47,485
		37,318	48,875
Net current assets		**253,832**	156,175
Net assets		**1,328,511**	992,320
Capital and reserves			
Share capital		**226,053**	161,092
Reserves	(c)	**1,102,458**	831,228
Total equity		**1,328,511**	992,320

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

Notes:

(a) Interests in subsidiaries

		31 December 2012 HK$'000	31 March 2012 HK$'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)*	**255,791**	160,760
		1,322,813	1,227,782
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)
		1,091,925	996,894
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**255,791**	160,760
		1,091,925	996,894

(i) The amounts due from subsidiaries are unsecured, interest-free and with repayment terms over 1 year.

(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.

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

Notes: (Continued)

(c) Reserves

	Share premium	Contributed surplus	Share-based payment reserve	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 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 39(a))*	–	483,276	–	–	–	483,276
Utilisation of the contributed surplus *(note 39(a))*	–	(328,895)	–	–	328,895	–
At 31 March 2012	**614,507**	**154,381**	**29,705**	**32,235**	**400**	**831,228**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**(10,961)**	**(10,961)**
Recognition of share-based payment expenses	**–**	**–**	**3,491**	**–**	**–**	**3,491**
Issued of subscription shares *(note 39(b))*	**282,565**	**–**	**–**	**–**	**–**	**282,565**
Share repurchased and cancelled *(note 39(c))*	**(3,765)**	**–**	**–**	**–**	**–**	**(3,765)**
Shares issue expenses *(note 39(b))*	**(100)**	**–**	**–**	**–**	**–**	**(100)**
At 31 December 2012	**893,207**	**154,381**	**33,196**	**32,235**	**(10,561)**	**1,102,458**

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.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2012 and 31 March 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				31 December 2012	31 March 2012	**31 December 2012**	31 March 2012	
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 Science and Technology Development Group Ltd*) # ("HYY")	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%**	51%	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 and development

\# These entities are registered as a private limited company under the PRC law.

\## These entities are registered as a private limited 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 period/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 period/year or at any time during the period/year.

50. EVENTS AFTER THE REPORTING PERIOD

(i) On 4 February 2013, Ever Source Science and Technology Development Group Limited ("HYY"), a subsidiary of the Company, and China Energy Conservation and Environmental Protection New Material Investment Co. Ltd, a connected person to the Group, have entered into the capital increment agreement ("Capital Increment Agreement"). Pursuant to the Capital Increment Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Fujian China Energy Conservation and Environmental Protection Quancheng Investment Co., Ltd. at a total consideration of RMB40,000,000 (equivalent to approximately HK$49,826,000). Details of the subscription are set out in the announcement of the Company dated 4 February 2013.

(ii) On 6 February 2013, the Company offered 200,000,000 share options to the directors, chief executives, employees and business associates of the Company for a total of 200,000,000 ordinary shares of US$0.01 each in the share capital of the Company at an exercise price of HK$0.426 per share. Among the 200,000,000 share options offered, 190,500,000 share options were accepted. Details of grant of share options are set out in the announcement of the Company dated 6 February 2013 and 12 March 2013.

(iii) On 21 February 2013, a strategic co-operation framework agreement was entered into between the Company and Accord Sunny investments Limited ("Accord Sunny"), an independent third party not connected to the Group, pursuant to which a preliminary cooperation framework in relation to the acquisition of the Land and the investment of the construction on the Land has been agreed. The consideration for acquisition of the Land shall be paid by Accord Sunny or its wholly-owned subsidiary. Details of the co-operation framework agreement are set out in the announcement of the Company dated 21 February 2013.

(iv) On 21 March 2013, the Company entered into the framework agreement ("Framework Agreement") with China Energy Conservation and Environmental Protection Group ("CECEP"). Pursuant to the Framework Agreement, CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the products using "HYY single-well circulation for heat exchange geothermal energy collection technology" and the operational services provided by the Group's subsidiaries. The term of the Framework Agreement is from the date of the independent shareholders' approval of the Framework Agreement or 1 May 2013, whichever is the later, to 31 December 2015. The annual caps for the transactions contemplated thereunder shall not be more than the amounts prescribed pursuant to the Framework Agreement. Details of the proposed continuing connected transactions are set out in the announcement of the Company dated 21 March 2013.