中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

Annual Report 2013

TECHNOLOGY AND RESOURCES LINKS

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This report will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of China Ground Source Energy Industry Group 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

Zhao Youmin
Daiqi

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

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99 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)*
Zhao Youmin *(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
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Hong Kong

LEGAL ADVISER

Keith Lam Lau & Chan
5th-7th Floors
The Chinese Club Building
21-22 Connaught Road Central
Hong Kong

AUDITORS

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

STOCK CODE

8128

COMPANY WEBSITE

www.cgsenergy.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors ("the Board") of China Ground Source Energy Industry Group Limited ("the Company"), I am pleased to report to all the shareholders on the final results of the Company and its subsidiaries (collectively referred to as "CGS" or the "Group") for the year ended 31 December 2013 ("the Review Period").

The revenue generated for the Review Period was approximately HK$364,000,000, an increase of approximately 57.5% compared with that for the nine months ended 31 December 2013. The increase in revenue was mainly attributable to the diversified income streams from aggressive business development of technology licensing and consultation services during the Review Period. Net profit for the Review Period was approximately HK$99,000,000, representing a significant increase from that of the final results for the nine months ended 31 December 2013. The increase in net profit was mainly attributable to the gain from the disposal of a portion of self-built demonstration building in Beijing and the fair value change in investment properties of the Group during the Review Period.

A final dividend of HK0.5 cents per share has been proposed for the Review Period.

In contrast with the robust energy demand from the improving living standards and rapid urbanisation amid the growing economy of China, the continuous smog and haze and pollution due to consumption of fossil fuels have become a serious threat to the health and living of human beings. Great importance has been attached to the national mission of energy conservation and environmental protection at the recent meetings including the National People's Congress and the Chinese Political Consultative Conference as well as the meeting of National Energy Administration. It was reiterated that China should strengthen the strategic position and application of renewable energy, implement energy conservation, emission reduction and adjustment to energy structure. The objective is to increase the proportion of non-fossil energy in domestic primary energy consumption to 11.4% by 2015 and solve the serious problems including smog and haze, pollution and energy shortage, as proposed in the Twelfth Five-year Plan. It was also proposed to increase investment in environmental protection and promote the development of renewable energy through supportive policies, industrial planning, government-enterprise cooperation and other means.

The Company is principally engaged in development and utilisation of shallow ground source energy as the alternative heating (cooling) energy for buildings, with aim to upgrade the traditional heating industry with combustion, emission and pollution impacts into an emerging industry of "integrated heating and cooling system with shallow ground source energy" featuring zero combustion, emission and pollution in the heating process. Through the years, we have established five business models which are optimised on an ongoing basis to support our strategic development, including: (1) licensing of patented products and proprietary technology; (2) contract management of ground source energy as heating (cooling) energy; (3) construction and operation of dispersed ground source energy station for cooling and heating; (4) sales and installation of HYY ground source heat pump environment system; and (5) ground source energy for integrated heating and cooling industrial park. Through heightened independent research and development ability, HYY has established a complete heating/cooling technology and product system for various types of buildings under different geological conditions. In particular, the Ground Source Heating Devices provides a low-cost solution to substitute for the traditional coal-fired heating in rural area; the ground source heat pump environment system provides ground source energy as heating (cooling) energy for independent houses and communities; and the dispersed ground source energy station for cooling and heating can replace urban heating infrastructure to achieve centralised energy supply for building(s) in a given district. It is a leap-forward progress for the Company in upgrading its business operations and expanding the niche to prepare for large-scale development in the future.

I believe that the Group is well positioned to differentiate itself from the shallow ground source energy heating/cooling industry, thanks to its professional team, strategic positioning and collaboration with business partners and governments through the years under the supportive policies on clean and renewable energy, to scale new heights in earnings performance. We strive for building up the Group as a top international professional industry group in the PRC and abroad specializing in application of shallow ground source energy as alternative energy for heating and cooling for buildings, and contributing to the national mission of energy conservation and emission reduction.

Chairman's Statement

Looking ahead to 2014, we are confident in the Group's prospects. The Group will capitalise on its technological advantages with a focus on research and practices to seize the historic opportunities, laying a solid foundation for its sustainable development to maximise the value for its shareholders and investors.

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.

Sincerely,

Zheng Qiyu
Chairman

Hong Kong, 29 March 2014

Management Discussion and Analysis

FINANCIAL REVIEW

In the last financial reporting period, 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 last financial report only covers a nine-month period beginning from 1 April 2012 to 31 December 2012; whereas the current financial report covers a twelve-month period beginning from 1 January 2013 to 31 December 2013 and all the percentages are comparing on the figures of a twelve-month period to nine-month period.

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2013 and the nine-month period ended 31 December 2012.

	Year ended 31 December 2013		Nine months ended 31 December 2012	
	HK$'000	***%***	*HK$'000*	*%*
Turnover:				
– Shallow ground source energy utilisation system	**354,285**	**97**	225,471	98
– Properties investment	**9,377**	**3**	5,519	2
Total turnover	**363,662**	**100**	230,990	100

OPERATION RESULTS

Total turnover from operations for the year ended 31 December 2013 was approximately HK$364 million, as compared with HK$231 million for the nine-month period ended 31 December 2012. Turnover from shallow ground source energy utilisation system was increased due to the fact that the revenue from patented technology and energy contract management services increased during the year.

During the year ended 31 December 2013 under review, the Group recorded net profit of approximately HK$99 million compared with a profit of approximately HK$46 million for the nine-month period ended 31 December 2012. The increase in net profit was primarily due to the disposal of a portion of investment properties and the fair value changes on the investment properties during the year.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2013 was approximately HK$88 million or, represented 24.3% of the revenue (nine-month period ended 31 December 2012: HK$79 million, represented 34.3% of the revenue). In order to ensure all the new projects meeting the new standards of The Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well which became effective on 1 April 2013, the Group committed to provide free modification, installation and testing of the customers' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow ground source energy utilisation system which was attributable to the increase in costs of sales during the year. Furthermore, provision made for the amounts due from customers for contract work in view of the uncertainty on the collectability was recognised as cost of sales.

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses increased by approximately HK$17 million, or 132% as compared with that of the nine-month period ended 31 December 2012. The Group also committed to provide free modification, installation and testing of the customers' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow ground source energy utilisation system in order to ensure all the completed projects meet the new standards, thereby enhancing the promotional effect, which attributable to the increase in selling and distribution expenses during the year.

Administrative expenses amounted to approximately HK$115 million and HK$72 million for the year ended 31 December 2013 and the nine-month period ended 31 December 2012 respectively. The increase in administrative expenses as compared with last financial reporting period was mainly due to the increase in staff costs.

During the year, the Company granted share options to the directors, officer and employees of the Group, which had led to the share-based payment increased from HK$3.5 million for the nine-month period ended 31 December 2012 to HK$20.1 million for the year ended 31 December 2013.

SEGMENTAL INFORMATION

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

Shallow Ground Source Energy

The Group continued to put great effort in promoting the shallow ground source energy as alternative energy for heating/cooling based on the following five business models:

(1) licensing of patented products and proprietary technology;

(2) contract management of shallow ground source energy as heating (cooling) energy;

(3) construction and operation of dispersed ground source energy station for cooling and heating;

(4) sales and installation of HYY ground source energy heat pump environment system; and

(5) ground source energy for integrated heating and cooling industrial parks.

Securities investment and trading

The Group invested the idle fund for securities investment and trading in order to increase the Group's income.

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 ground source energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sales under development had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow ground source energy as alternative energy.

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

Management Discussion and Analysis

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2013 was approximately HK$939 million (2012: approximately HK$601 million). As at 31 December 2013, the Group had cash and bank balances of approximately HK$542 million (2012: approximately HK$156 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2013, no group assets have been charged (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 minimize exposure to foreign exchange risks.

As at 31 December 2013, 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, increased to 31.2% as at 31 December 2013 (2012: 0%), due to the bank loans obtained during the year.

EMPLOYEES

As at 31 December 2013, the Group has approximately 510 employees (2012: approximately 550).

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

SHARE OPTION SCHEMES

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees of the Group. 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 2013, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board resolved to recommend a final dividend for the year ended 31 December 2013 of HK0.5 cents per share (nine months ended 31 December 2012: HK0.4 cents per share).

The proposed final dividend of HK0.5 cents per share is subject to approval by the shareholders in annual general meeting.

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 properties investment and development segment in the future. The development of "HYY Ground Source Energy for Integrated Heating and Cooling Industrial Park" is demonstrated by the construction of regional shallow ground source heating and cooling energy industrial parks and the manufacturing of system products based on the regional characteristics of the heating industry, so as to ensure wide application of shallow ground source energy for heating and the establishment of an operation assurance system in the locality. The development and construction of the park will be the focus of the development plan of the Group.

MAJOR ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2013, the Group and 北京市四博連通用機械新技術公司 ("四博連"), the related company of the Group, entered into the sale and purchase agreement, pursuant to which, the Group sold, and 四博連 agreed to purchase, the investment properties of the Group at the deemed consideration of approximately RMB259,677,000 (approximately HK$327,954,000). The deemed consideration was partially offset by the consideration paid by the Group for the acquisition of the office buildings from 四博年 and the remaining balance by cash. The Group acquired the office building from 四博連 amounted to approximately RMB146,640,000 (approximately HK$185,196,000). Details of the acquisition of office building and disposal of investment properties are set out in notes 16 and 17 respectively to the consolidated financial statements in this report.

Save as the disclosed above, there is no other major acquisitions and disposals during the year.

BUSINESS REVIEW AND OUTLOOK

During the period, the Company changed its name from "China Ground Source Energy Limited 中國地能有限公司" to "China Ground Source Energy Industry Group Limited 中國地能產業集團有限公司", to highlight its development of the emerging industry of integrated heating and cooling system with shallow ground source energy based on industrialisation of the original innovative technologies.

The Group's original innovative "single well heat exchange circulation system for ground source energy collection technology", which is well internationally recognised as a safe, efficient and reliable shallow ground source energy collection technology. The proven technology has strong applicability and designability without incurring additional cost to buildings. The industrialisation of the original innovative technology will expedite the all-around upgrading of the traditional heating industry with combustion, emission and pollution impacts into an emerging industry of integrated heating and cooling system with shallow ground source energy featuring zero combustion, emission and pollution.

The Group has entered into a simple reproduction, rapid development stage of vigorously developing emerging industry of integrated heating and cooling system with shallow ground source energy while focusing on the scientific research and promotion of the development and utilization of shallow ground source energy as alternative energy sources. The Group has developed an array of modular product systems with various specifications catering for different geological conditions, building types and construction techniques, including:

(1) "Dispersed ground source energy station for heating and cooling" mainly for heating infrastructures of new-developing towns and cities;

(2) "HYY ground source heat pump environment system" for single building or building blocks; and

(3) "Ground Source Heating Devices" mainly for rural household heating as a safe, economical, environmental-friendly and a substitute of small coal-fired boilers.

Management Discussion and Analysis

"HYY dispersed ground source energy station for cooling and heating", which is developed based on "points and network combination", can be deployed as a regional centralised energy supply system that catering to the needs of buildings. It can replace urban heating infrastructure to achieve centralised energy supply for urban building blocks. When applied in conjunction with other energy sources, it can greatly reduce consumption of the traditional fossil energy. In December 2013, HYY and Dalian Jinzhou New Area Administrative Committee entered into a strategic cooperation framework agreement in relation to joint construction of a 900MW Dispersed Ground Source Energy Station for Cooling and Heating.

During the period, the Group recorded a significant increase in the revenue from patented technology services and energy contract management, which is in line with our development plan and expectation. With ground source energy for integrated heating and cooling industrial parks constructed through cooperation with the local government, established regional research and production and service support systems to facilitate sound interaction between promotion and application of shallow ground source energy. Ground source energy for integrated heating and cooling industrial parks assure to render services to 15,000,000 square meters' building therein.

In view of the aggravating smog and haze and environmental pollution issues, the State Council has determined to take iron-fisted initiatives to complete the iron-fisted task of prevention and control the pollution.

Academician of the Chinese Academy of Sciences present to NPC and CPPCC "To promote vigorously combustion-free heating with equivalent cost is an important means to cure haze pollution". An important cause of smog and haze is the low-altitude emission discharged by enormous fuel-combustions for heating. The emission containing harmful gas, dirt and vast heat when encountering typical weather condition transforms into haze. Presently the shallow ground source energy collection technology as an indigenous patent technology developed in China is capable of extracting massive amount of ground source energy to provide heating for buildings free from pollution and potential geological threats in any geological conditions and at very low cost. Therefore, a scientific structure of graded energy utilisation is formulated.

The national wide smog and haze comes out, which enables us to have reason to see in the near future: a rapid development of the emerging industry of integrated ground source system of heating and cooling will become one of the most economical and effective means to expedite the campaign against smog and haze by the local government as the first person responsible for energy conservation and environmental protection. It is believed that the era of the emerging industry of integrated ground source system of heating and cooling is around the corner, which is also a specific example of the ecological civilization construction promoting the traditional industry upgrading to adapt to a new period, which also symbols our Group entering into a healthy and rapid development.

Biography of Directors

Mr. Zheng Qiyu ("Mr. Zheng"), aged 60, 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 51, 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 14 years of experience in the promotion, research and development of shallow ground source energy as alternative energy for heating. The single well heat exchange circulation system for ground source energy collection technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

Mr. Zang Yiran ("Mr. Zang"), aged 35, the chief financial officer and executive Director of the Company, 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. Zhao Youmin ("Mr. Zhao"), aged 42, a non-executive Director of the Company graduated from Capital University of Economics and Business with a master's degree of economics. He is a senior economist. Previously, he worked as an officer of Labor and Human Resources Division of Tianjin Electric Power Construction Company and held the positions of senior operations supervisor of Human Resource Department and secretary to deputy general manager with State Development & Investment Corporation. Afterwards, he acted as secretary to general manager of China Energy Conservation Investment Corporation, deputy general manager of CECEP Solar Energy Technology Co., Ltd and director of Cooperation and Development Department of CECEP. Currently, he is an Executive Director and the general manager of China Energy Conservation & Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Biography of Directors

Mr. Daiqi ("Mr. Dai"), aged 32, a non-executive Director of the Company, graduated from Southwest Jiaotong University with a master's degree of management. Previously, he worked at Beijing Dongcheng Branch of Shenzhen Development Bank as a senior account executive and held positions with Strategic Management Department of China Energy Conservation Investment Corporation and Strategic Management Department of CECEP. Besides, he acted as deputy general manager of Investment and Capital Operation Department of China Energy Conservation & Environmental Protection (Hong Kong) Investment Company Ltd.. He has been acting as Administrative Director of the Company since September 2012.

Mr. HU Zhaoguang ("Mr. Hu"), aged 75, 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 Main Board of the Stock exchange (Stock Code: 1522)).

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 71, 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 75, 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 year ended 31 December 2013.

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 year ended 31 December 2013 by business segments are set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 29 to 123.

The directors have resolved to recommend the payment of a final dividend of 0.5 cents per share to the shareholders whose names appear on the register of members of the Company on 21 May 2014, amounting to approximately HK$14,514,000 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 year ended 31 December 2013, for the nine months ended 31 December 2012, for the years ended 31 March 2012 and 2011 and for the six months ended 31 March 2010 are set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'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)
Turnover	**363,662**	230,990	318,079	322,211	162,323
Profit before tax	**155,249**	73,501	98,255	38,775	38,947
Income tax expense	**(55,949)**	(27,445)	(43,895)	(15,004)	(12,618)
Profit for the year/period from continuing operation	**99,300**	46,056	54,360	23,771	26,329
Profit/(loss) for the year/period from discontinued operation	–	–	–	12,532	(75,099)
Profit/(loss) for the year/period	**99,300**	46,056	54,360	36,303	(48,770)
Attributable to:					
Owners of the Company	**101,810**	45,951	45,204	34,413	(46,404)
Non-controlling interests	**(2,510)**	105	9,156	1,890	(2,366)
	99,300	46,056	54,360	36,303	(48,770)

Report of the Directors

Assets, liabilities and non-controlling interests

	As at 31 December			As at 31 March	
	2013	2012	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)		
Total assets	**2,695,296**	1,990,813	1,479,445	1,265,000	1,184,642
Total liabilities	**(1,014,726)**	(450,995)	(340,144)	(235,445)	(382,915)
Non-controlling interests	**(37,958)**	(39,680)	(39,168)	(23,188)	(45,237)
Equity attributable to equity holders of the Company	**1,642,612**	1,500,138	1,100,133	1,006,367	756,490

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued at 31 December 2013. The revaluation resulted in a surplus over book values amounting to approximately HK$1,093,000, which has been credited directly to the assets revaluation reserve.

During the year, the Group acquired an office building amounted to approximately HK$185,196,000. Details of the movements during the year in the property, plant and equipment of the Group 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 year. The increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to approximately HK$72,896,000. These investment properties will be developed as the Group's self-built demonstration leasing project with the application of shallow ground source energy.

PROPERTIES

Details of the major properties held by the Group at 31 December 2013 are set out on page 124 of the annual report.

SHARE CAPITAL

As at 31 December 2013, 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 year, together with the reasons therefore, are set out in notes 41 to the consolidated financial statements.

USE OF PROCEEDS

In 2012, the Company completed the allotment and issue of 850,000,000 shares at a subscription price of HK$0.41 per share to China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited. Amongst the net proceeds from the subscription of HK$347.5 million, HK$100 million was used for initial capital injection into Heng Run Feng Infrastructure Construction (Dalian) Co., Ltd. (恒潤豐城市基礎設施建設（大連）有限公司), a subsidiary of the Company, formed for the construction of the multi-source energy station. Approximately HK$245 million was applied to the Company's business development of its self-built demonstration projects in Beijing and Dalian for promotion of the application of ground source energy as alternative energy for heating/cooling supply and was deposited for acquisition of land use right in Dalian Junzhou.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 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 2013, the Company's reserve available for distribution amounted to approximately HK$841,820,000 (2012: HK$882,650,000) after net off the accumulated losses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 54% (nine months ended 31 December 2012: 28%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 21% (nine months ended 31 December 2012: 10%). Purchases from the Group's five largest suppliers accounted for approximately 42% (nine months ended 31 December 2012: 7%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16% (nine months ended 31 December 2012: 2%).

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Zheng Qiyu *(Chairman)*
Ms. Chan Wai Kay Katherine *(Vice Chairman)*
Mr. Xu Shengheng
Mr. Zang Yiran

Non-executive directors:
Mr. Zhao Youmin (Appointed on 12 August 2013)
Mr. Daiqi (Appointed on 12 August 2013)
Ms. Wu Xiaohua (Resigned on 12 August 2013)
Ms. Xu Genghong (Resigned on 12 August 2013)

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Hu Zhaoguang

Note: In accordance with article 84(3) and 85 of the Company's articles of association, Mr. Zhao Youmin, Mr. Daiqi and Mr. Wu Desheng 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.

Report of the Directors

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 year.

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

As at 31 December 2013, 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 Positions and Short Positions in Shares and Equity Derivatives

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	Capacity	Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
Ms. Chan Wai Kay Katherine *(Note 1)*	Beneficial owner	34,000,000 (L)	1.17%	28,700,000 (L)		
	Interest of spouse	10,074,000 (L)	0.35%	–	72,774,000 (L)	2.51%
Mr. Xu Shengheng *(Note 2)*	Beneficial owner	508,319,000 (L)	17.51%	23,300,000 (L)	532,321,000 (L)	18.34%
	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	–	–	4,000,000 (L)	4,000,000 (L)	0.14%
Mr. Wu Desheng *(Note 4)*	Beneficial owner	–	–	2,500,000 (L)	2,500,000 (L)	0.09%

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

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

(a) Long Positions and Short Positions in Shares and Equity Derivatives *(Continued)*

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 34,000,000 shares and 28,700,000 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 23,300,000 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 the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.

3. Mr. Jia Wenzeng is interested in 4,000,000 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.

4. Mr. Wu Desheng is interested in 2,500,000 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.

(b) Long Positions 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 2013, 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 2013
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
Mr. Wu Desheng	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000

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

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

Save as disclosed above, as at 31 December 2013, 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 year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire such rights in any other corporate body.

SHARE OPTION PLAN

The detailed disclosures relating to the Company's share option plan are set out in note 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 2013, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions and short positions in shares and equity derivatives

	Number of issued ordinary shares of US$0.01 each in the Company held and capacity					
Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
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%	23,300,000 (L)	532,321,000 (L)	18.34%
	Interest of spouse	508,300,000 (S)	17.51%	–	508,300,000 (S)	17.51%

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO *(Continued)*

Long Positions and short positions in shares and equity derivatives *(Continued)*

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 23,300,000 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 23,300,000 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 2013, 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 TRANSACTION

Continuing Connected Transaction not exempt from Independent Shareholders' Approval Requirements

The continuing connected transaction not exempt from independent shareholders' approval requirements under Rule 20.34 of the GEM Listing Rules undertaken by the Group during the period under review is set out below:

On 21 March 2013, the Company entered into the framework agreement with China Energy Conservation and Environmental Protection Group Company ("CECEP"), a deemed substantial shareholder of the Company, whereby CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the products and the services. The term of the framework agreement is from the date of the Independent Shareholders' approval ("the Effective Date") of the framework agreement to 31 December 2015.

The Company has issued a circular in relation to such continuing connected transaction on 13 May 2013 and disclosed that the annual cap for, in aggregate, the purchases of the products and the services by CECEP and its subsidiaries from the Company and its subsidiaries for the period from the Effective Date to 31 December 2015 are as follows:

	From Effective Date to 31 December 2013 (RMB)	From 1 January 2014 to 31 December 2014 (RMB)	From 1 January 2015 to 31 December 2015 (RMB)
Sale and purchase of the Products	80,000,000	150,000,000	200,000,000
Sale and purchase of the Services	7,000,000	17,000,000	22,000,000

Such continuing connected transaction was approved by the independent shareholders of the Company at the annual general meeting of the Company held on 13 June 2013.

The total sale of products to CECEP and its subsidiaries constituted a continuing connected transaction with CECEP during the Effective Date to 31 December 2013 was approximately RMB1,407,000 (equivalent to approximately HK$1,777,000).

CONNECTED TRANSACTION *(Continued)*

Continuing Connected Transaction not exempt from Independent Shareholders' Approval Requirements *(Continued)*

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board has engaged the auditor to report on the Group's continuing connected transactions and the auditor has confirmed the continuing connected transactions in accordance with Rule 20.38 of the GEM Listing Rules and issued an unqualified letter containing their findings and conclusions accordingly.

The independent non-executive Directors have confirmed the continuing connected transactions in accordance with Rule 20.37 of the GEM Listing Rules that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms, or on terms no less favourable than terms available to independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders as a whole.

Connected Transaction exempt from Independent Shareholders' Approval Requirements

(1) 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. ("New Material Company"), 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. ("Quancheng Investment") at a total consideration of RMB40,000,000. On 8 July 2013, HYY, New Material Company and Quancheng Investment entered into a termination agreement by which all parties mutually agreed to terminate the Capital Increment Agreement.

(2) On 30 September 2013, China Energy Conservation Hua Yu Fund Management Company Limited* (中節能華禹基金管理有限公司) ("Hua Yu"), a connected person to the Group, and HYY entered into the consultancy service agreement, pursuant to which Hua Yu will provide financial consultancy services to HYY. Upon Hua Yu's successful introduction of financial institution(s) to provide funding in the sum of not less than RMB400,000,000 to HYY, a consultancy fee in the sum of RMB7,700,000 should be paid to Hua Yu. During the year, RMB7,700,000 was paid to Hua Yu. Details of the consultancy service agreement can be referred to the Company's announcement dated 30 September 2013.

Connected Transaction not exempt from Independent Shareholders' Approval Requirements

On 19 April 2013, HYY and Zhejiang CECEP Green Construction Environmental Protection Technology Ltd.* (浙江中節能綠建環保科技有限公司) (Zhejiang CECEP"), a connected person to the Group, entered into a joint venture contract ("JV Contract") in relation to the establishment of the CECEP Green Construction (Hangzhou) Technology Development Ltd.* (中節能綠建（杭州）科技發展有限公司) ("JV Company"), which would be owned by Zhejiang CECEP and HYY as to 51% and 49% respectively with a registered capital of RMB600,000,000. On 14 January 2014, HYY and the Tianjin RongChuang AoCheng Investment Company Limited* (天津融創奧成投資有限公司) ("RongChuang") entered into the sale and purchase agreement ("SPA"), pursuant to which the RongChuang has conditionally agreed to acquire, and HYY has conditionally agreed to dispose of its rights to inject capital into the JV Company. The JV Contract was terminated upon signing of the SPA and the connected transaction was thereby terminated.

Details of other significant related party transactions of the Group during the year ended 31 December 2013 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.

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 year ended 31 December 2013 and has provided advice and comments thereon. The Audit Committee held 5 meetings during the year.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 22 to 26.

SECURITIES TRANSACTIONS BY DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of the events after reporting period of the Group are set out in note 50 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2013 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, 29 March 2014

Corporate Governance Report

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2013 (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 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 2013, the Board comprised of nine Directors including four executive Directors, namely Mr. Zheng Qiyu, Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng and Mr. Zang Yiran, two non-executive Directors, namely Mr. Zhao Youmin and Mr. Daiqi and three independent non-executive Directors, namely Mr. Hu Zhaoguang, Mr. Jia Wenzeng and Mr. 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 year ended 31 December 2013, a total of nine regular and adhoc Board meetings were held.

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

During the year ended 31 December 2013, nine 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 Meeting
Executive Directors					
Mr. Zheng Qiyu	9/9	N/A	2/2	2/2	1/1
Ms. Chan Wai Kay Katherine	9/9	N/A	N/A	N/A	1/1
Mr. Xu Shengheng	9/9	N/A	2/2	N/A	1/1
Mr. Zang Yiran	9/9	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Zhao Youmin (Appointed on 12 August 2013)	3/3	N/A	N/A	N/A	N/A
Mr. Daiqi (Appointed on 12 August 2013)	3/3	N/A	N/A	N/A	N/A
Ms. Wu Xiaohua (Resigned on 12 August 2013)	3/6	N/A	N/A	1/2	1/1
Ms. Xu Genghong (Resigned on 12 August 2013)	4/6	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Hu Zhaoguang	8/9	5/5	2/2	2/2	0/1
Mr. Jia Wenzeng	9/9	5/5	2/2	2/2	0/1
Mr. Wu Desheng	9/9	5/5	2/2	2/2	1/1

Code provision A.6.7 of the 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.

Code provision E.1.2 of the 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. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, and Mr. Hu Zhaoguang, an independent non-executive Director and the chairman of the Remuneration Committee, did not attend the annual general meeting held on 13 June 2013 due to their engagement in other 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 Mr. Zheng Qiyu and Mr. Xu Shengheng has been the chief executive officer.

NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive Directors should be appointed for a specific term, subject to re-election. At present, each of Mr. Zhao Youmin and Mr. Daiqi, 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.

DIRECTORS ' AND OFFICERS ' LIABILITIES

The Company has arranged for appropriate insurance covering the liabilities of the Directors that may arise out the corporate activities, which has been complied with Code Provision A.1.8. The insurance coverage will be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision A.6.5 of the 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, two meetings were held by the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was formed by the Company on 21 March 2012 with specific written terms of reference which has been adopted by the Company are consistent with the requirements of the Code. The primary duties of the nomination committee are, among others, to review the structure, size and composition (including the skills, knowledge and experience) and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The nomination committee presently consists of one executive Director, namely Mr. Zheng Qiyu (the chairman of nomination committee), one non-executive Director, namely Mr. Zhao Youmin (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, two meetings were held by the nomination committee.

AUDITORS' REMUNERATION

The audit works of the Group for the year ended 31 December 2013 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 for the year ended 31 December 2013** *HK$'000*
Audit services	2,000
Non-audit services	100
Total fee paid/payable for the Reporting Period	2,100

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 year ended 31 December 2013, 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.

Corporate Governance Report

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 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:	Units 3709-10, 37/F, The Center, 99 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.

CONSTITUTIONAL DOCUMENT

In order to bring the constitution of the Company in line with certain amendments made to the GEM Listing Rules, to incorporate certain housekeeping amendments and to consolidate the proposed amendments and all previous amendments made to the Articles of Association of the Company, special resolutions to amend the Articles of Association of the Company and to adopt the amended and restated Memorandum and Articles of Association were approved by the Shareholders at the Company's annual general meeting held on 13 June 2013. Details of the amendments to Articles of Association can be referred to the Company's circular dated 13 May 2013. The restated Memorandum and Articles of Association of the Company is available at the Company's website at www.cgsenergy.com.hk.

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 INDUSTRY GROUP LIMITED
(FORMERLY KNOWN AS 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 Industry Group Limited (formerly known as China Ground Source Energy Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 123, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

Independent Auditor's Report

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 2013 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
29 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
Turnover	7	**363,662**	230,990
Revenue	8	**363,662**	230,990
Cost of sales		**(275,193)**	(151,710)
Gross profit		**88,469**	79,280
Other income	9	**15,843**	41,910
Selling and distribution expenses		**(29,958)**	(12,926)
Administrative expenses		**(115,221)**	(72,413)
Other operating expenses		**–**	(610)
Loss on refunds of receipt in advance	38	**(16,385)**	–
Gain on disposal of a portion of investment properties	17	**188,733**	–
Fair value changes on investment properties	17	**72,896**	44,646
Impairment loss recognised in respect of trade receivables	28	**(11,466)**	(53)
Reversal of impairment loss recognised in respect of trade receivables in prior years	28	**9,764**	52
Profit from operations		**202,675**	79,886
Share of results of associates		**(6,237)**	(423)
Gain on deregistration of subsidiaries	42	**24**	176
Share-based payments	44	**(20,139)**	(3,491)
Finance costs	10	**(21,074)**	(2,647)
Profit before tax		**155,249**	73,501
Income tax expense	11	**(55,949)**	(27,445)
Profit for the year/period	12	**99,300**	46,056
Profit (loss) for the year/period attributable to:			
Owners of the Company		**101,810**	45,951
Non-controlling interests		**(2,510)**	105
		99,300	46,056
Earnings per share	15		
Basic (HK cents)		**3.51**	1.86
Diluted (HK cents)		**3.50**	1.86

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Profit for the year/period	**99,300**	46,056
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Gain (loss) on revaluation of leasehold land and building	**1,093**	(326)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**29,585**	7,225
Share of other comprehensive income of associates	**2,473**	315
Release of exchange translation reserve upon deregistration of subsidiaries	**(154)**	98
	31,904	7,638
Other comprehensive income for the year/period, net of income tax of nil	**32,997**	7,312
Total comprehensive income for the year/period	**132,297**	53,368
Total comprehensive income (expense) attributable to:		
Owners of the Company	**133,946**	52,853
Non-controlling interests	**(1,649)**	515
	132,297	53,368

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	*16*	**233,434**	38,653
Investment properties	*17*	**308,776**	245,692
Deposit paid for acquisition of land use rights	*18*	**244,377**	238,500
Goodwill	*19*	**445,850**	445,850
Intangible assets	*20*	**–**	–
Interests in associates	*21*	**57,570**	61,334
Available-for-sale investments	*22*	**512**	498
Prepayments	*24*	**20,841**	–
Deferred tax assets	*25*	**22,262**	21,876
		1,333,622	1,052,403
Current assets			
Inventories	*26*	**17,166**	23,899
Properties held for sale under development	*27*	**106,005**	89,571
Trade and retention receivables	*28*	**129,237**	87,060
Prepayments, deposits and other receivables	*29*	**73,022**	73,878
Consideration paid for the acquisition of a subsidiary	*30(i)*	**62,759**	–
Refundable deposit paid for setting up of a joint venture	*30(ii)*	**38,424**	–
Consideration receivable	*23*	**–**	53,486
Amounts due from customers for contract work	*31*	**389,506**	448,513
Amount due from an associate	*37*	**2,323**	4,237
Held-for-trading financial assets	*32*	**40**	45
Cash held at non-bank financial institutions	*33*	**1,262**	1,262
Short-term bank deposits	*33*	**484,763**	–
Bank balances and cash	*33*	**57,167**	156,459
		1,361,674	938,410
Current liabilities			
Trade payables	*34*	**125,463**	126,818
Accrued liabilities, deposits received and other payables	*35*	**169,946**	100,284
Amounts due to customers for contract work	*31*	**18,956**	12,121
Amounts due to related companies	*36*	**560**	16,117
Amounts due to associates	*37*	**9,279**	20,512
Tax payable		**98,691**	61,619
		422,895	337,471
Net current assets		**938,779**	600,939
Total assets less current liabilities		**2,272,401**	1,653,342

Consolidated Statement of Financial Position

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current liabilities			
Receipt in advance	38	**11,633**	67,308
Deferred income	39	**7,741**	7,463
Borrowings	40	**512,321**	–
Deferred tax liabilities	25	**60,136**	38,753
		591,831	113,524
Net assets		**1,680,570**	1,539,818
Capital and reserves			
Share capital	41	**226,053**	226,053
Reserves		**1,416,559**	1,274,085
Equity attributable to owners of the Company		**1,642,612**	1,500,138
Non-controlling interests		**37,958**	39,680
Total equity		**1,680,570**	1,539,818

The consolidated financial statements on pages 29 to 123 were approved and authorised for issue by the board of directors on 29 March 2014 and are signed on its behalf by:

Chan Wai Kay Katherine
Director

Zang Yiran
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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	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
Release of exchange translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	–	98	–	98	–	98
Total other comprehensive (expense) income for the period	–	–	–	(326)	–	–	–	–	7,228	–	6,902	410	7,312
Total comprehensive (expense) 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 41(b))*	(974)	(3,765)	–	–	–	–	–	–	–	–	(4,739)	–	(4,739)
Issue of subscription shares *(note 41(a))*	65,935	282,565	–	–	–	–	–	–	–	–	348,500	–	348,500
Subscription shares issue expenses *(note 41(a))*	–	(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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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 January 2013	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
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	101,810	101,810	(2,510)	99,300
Other comprehensive income (expense) for the year													
Gain on leasehold land and building revaluation	–	–	–	1,093	–	–	–	–	–	–	1,093	–	1,093
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	2,473	–	2,473	–	2,473
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	28,724	–	28,724	861	29,585
Release of exchange translation reserve upon deregistration of subsidiaries	–	–	–	–	–	–	–	–	(154)	–	(154)	–	(154)
Total other comprehensive income for the year	–	–	–	1,093	–	–	–	–	31,043	–	32,136	861	32,997
Total comprehensive income (expense) for the year	–	–	–	1,093	–	–	–	–	31,043	101,810	133,946	(1,649)	132,297
Deregistration of subsidiaries *(note 42)*	–	–	–	–	–	–	–	–	–	–	–	(73)	(73)
Recognition of share-based payment expenses *(note 44)*	–	–	–	–	–	–	–	20,139	–	–	20,139	–	20,139
Lapse of share option *(note 44)*	–	–	–	–	–	–	–	(363)	–	363	–	–	–
Appropriation	–	–	135	–	–	–	–	–	–	(135)	–	–	–
Dividends recognised as distribution *(note 14)*	–	(11,611)	–	–	–	–	–	–	–	–	(11,611)	–	(11,611)
At 31 December 2013	226,053	891,630	2,346	25,255	154,381	(1,694)	32,235	52,972	74,011	185,423	1,642,612	37,958	1,680,570

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 in prior years.

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**155,249**	73,501
Adjustments for:			
Impairment loss recognised in respect of trade receivables	*28*	**11,466**	53
Impairment loss recognised in respect of deposit and other receivables	*29*	**1,033**	–
Write-down of inventories		**2,016**	–
Government grants income		**(1,314)**	(8,755)
Amortisation of intangible assets		**–**	969
Change in fair value of held-for-trading financial assets		**5**	(20)
Depreciation of property, plant and equipment		**4,527**	2,637
Loss on refunds of receipt in advance	*38*	**16,385**	–
Finance costs	*10*	**21,074**	2,647
Bank interest income		**(2,074)**	(1,072)
Imputed interest income on other receivables		**–**	(346)
Imputed interest income on receipt in advance		**(6,837)**	(17,002)
Loss (gain) on disposal of property, plant and equipment		**305**	(2,523)
Gain on disposal of a portion of investment properties	*17*	**(188,733)**	–
Gain on deregistration of subsidiaries	*42*	**(24)**	(176)
Reversal of impairment loss recognised in respect of trade receivables in prior years	*28*	**(9,764)**	(52)
Share-based payments	*44*	**20,139**	3,491
Share of results of associates		**6,237**	423
Gain on disposal of land use rights		**–**	(4,924)
Fair value changes on investment properties	*17*	**(72,896)**	(44,646)
Operating cash flows before movements in working capital		**(43,206)**	4,205
Decrease (increase) in inventories		**4,729**	(2,900)
Increase in trade and retention receivables		**(42,133)**	(30,172)
Increase in prepayments, deposits and other receivables		**(22,659)**	(9,417)
Decrease (increase) in amounts due from customers for contract work		**67,563**	(31,008)
Additions to property held for sale under development		**(13,581)**	(51,955)
Increase in cash held at non-bank financial institutions		**–**	(1,262)
(Decrease) increase in trade payables		**(4,965)**	22,064
Increase in accrued liabilities, deposits received and other payables		**56,575**	16,496
(Decrease) increase in receipt in advance		**(84,162)**	61,543
Increase (decrease) in amounts due to customers for contract work		**6,387**	(3,482)
Cash used in operations		**(75,452)**	(25,888)
PRC Enterprise Income Tax ("PRC EIT") paid		**(1,052)**	(808)
NET CASH USED IN OPERATING ACTIVITIES		**(76,504)**	(26,696)

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
INVESTING ACTIVITIES			
Decrease in short-term bank deposits		–	2,493
Consideration paid for acquisition of a subsidiary		(61,883)	–
Deposit paid for setting up of a joint venture		(37,888)	–
Purchase of property, plant and equipment		(9,914)	(8,803)
Proceeds on disposal of property, plant and equipment		340	4,943
Proceeds from disposal of a portion of investment properties		170,542	–
Proceeds on disposal of deposit paid for acquisition of land use rights		54,506	13,539
Repayment from an associate		1,995	1,875
Development cost paid for investment properties under construction or development		(126,115)	(82,867)
Dividends received from an associate		–	1,454
Deposits paid for acquisition of land use rights		–	(238,500)
Interest received		2,074	1,072
NET CASH USED IN INVESTING ACTIVITIES		(6,343)	(304,794)
FINANCING ACTIVITIES			
New borrowings raised		505,171	–
Government grants received		1,369	1,375
Repayment of borrowings		–	(2,462)
(Repayment to) advance from related companies		(15,864)	3,610
Proceeds from issue of subscription shares, net of issuing expenses	41(a)	–	348,400
Repurchase of shares	41(b)	–	(4,739)
Interest paid		(10,223)	(53)
Dividend paid		(11,611)	–
(Repayment to) advance from an associate		(11,999)	4,619
NET CASH FROM FINANCING ACTIVITIES		456,843	350,750
NET INCREASE IN CASH AND CASH EQUIVALENTS		373,996	19,260
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		156,459	135,539
Effect of foreign exchange rate changes		11,475	1,660
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by		541,930	156,459
Short-term bank deposits		484,763	–
Bank balances and cash		57,167	156,459
		541,930	156,459

1. GENERAL AND BASIS OF PREPARATION

China Ground Source Energy Industry Group Limited (formerly known as 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 prior 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 prior period cover the nine-month period from 1 April 2012 to 31 December 2012. The corresponding comparative amounts shown for the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a nine-month period from 1 April 2012 to 31 December 2012 and therefore may not be comparable with amounts shown for the current year.

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

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

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

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosures of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HK (International Financial Reporting Interpretation Committee) ("IFRIC") – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine

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 year and prior period and/or on the disclosures set out in these consolidated financial statements.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as the '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 additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply 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 for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period (please see notes 6, 16 and 17 for the 2013 disclosures). Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) Int-12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

As a result of the initial application of HKFRS 10, the directors of the Company made an assessment whether the Group has control over its investees at the date of initial application and concluded that the application of HKFRS 10 does not result in any change in control conclusions.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements. Details are set out in notes 21 and 49.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The Group has early adopted these amendments to HKAS 36 and the amendments have had no impact on the financial position or performance of the Group.

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 to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[4]
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) – Int 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014.

[2] Effective for annual periods beginning on or after 1 July 2014.

[3] HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

[4] Effective for annual periods beginning on or after 1 January 2016.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

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

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

Annual Improvements to HKFRSs 2010-2012 Cycle *(Continued)*

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle will have a material effect on the Group's consolidated financial statements.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described below:

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

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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.

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

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

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting 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 have been made to HKFRS 12 and HKAS 27 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.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 32 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 directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

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

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

3. SIGNIFICANT ACCOUNTING POLICIES

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 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 at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment in subsidiaries

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

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 acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's CGU (or groups of CGU) that is expected to benefit from the synergies of the combination.

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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 and joint ventures 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 or joint ventures. When the Group's share of losses of an associate or a joint venture exceeds its interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate and a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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) with 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or the joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Where a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interest in the associate or joint venture that are not related to the Group.

Revenue recognition

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

Revenue from 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 ground source 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts 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 (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

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 subsequent 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.

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. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if the Group cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

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 and losses arising from changes in the fair value of investment properties 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 statement of profit or loss.

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

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 of 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.

The outcome of a construction contract can only be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the entity. However, when an uncertainty arises about the collectibility of an amount already included in contract revenue, and already recognised in profit or loss, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

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 on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at 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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve (attributed to non-controlling interests as appropriate).

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 partial disposal of an interest in associates that includes a foreign operation of which the retained interest becomes a financial asset), 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 and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and 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 bases 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 deferred tax 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 realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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 of inventories are determined on a 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 bank 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 bank deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised 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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a 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 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss ("FVTPL") when the financial asset is 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 term; or
- on initial recognition it is a part of identified 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 stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend earned on the financial assets and is included in other income. Fair value is determined in the manner described in notes 6 and 32.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and retention receivables, deposits and other receivables, consideration paid for acquisition of a subsidiary, refundable deposit paid for setting up of a joint venture, consideration receivable, amount due from an associate, short-term bank deposits, cash held at non-bank financial institutions and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS 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 are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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 investment have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security 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 probable 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 deposit 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 average credit period, as well as 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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 (see the accounting policy below).

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

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

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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 an entity after deducting all of its liabilities. Equity instruments issued by the Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade payables, accrued liabilities and other payables, amounts due to related companies, amounts due to associates and borrowings 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.

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 expired. 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 arrangements

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

For grants of share options that are conditional upon satisfying specified vesting conditions, 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.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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.

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 a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised 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 Land Appreciation Tax ("LAT") on disposal of its investment properties.

Control over a subsidiary

The Group does not have any equity interests in 北京市廣廈建築事務所 ("Guangsha"). The Group entered into a structural agreement (the "Structural Agreement") with Guangsha and its shareholders in April 2011. Notwithstanding the lack of equity ownership, through the Structural Agreement, the Group is able to exercise control over Guangsha by way of controlling the voting rights of Guangsha, governing their financial and operating policies, appointing and removing the majority of the members of their controlling authorities, casting the majority of votes at meeting of such authorities and exposing and having rights to variable returns from its involvement with Guangsha. Accordingly, Guangsha are accounted for as subsidiary of the Group. Further details are set out in note 49.

The directors of the Company assessed whether or not the Group has control over Guangsha based on whether the Group has the practical ability to direct the relevant activities of Guangsha unilaterally. In making their judgement, the directors of the Company considered the Group's rights through the Structural Agreement over Guangsha. After assessment, the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Guangsha and therefore the Group has control over Guangsha.

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

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.

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.

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, the management also made 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 2013, the carrying amounts of properties held for sale under development are approximately HK$106,005,000 (2012: HK$89,571,000).

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$22,262,000 as at 31 December 2013 (2012: HK$21,876,000). 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 statement of profit or loss for the period in which it takes place.

Estimation of fair value of investment properties

Investment properties are stated at fair values based on the valuations performed by independent professional valuers. In determining the fair values, 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 are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

As at 31 December 2013, the carrying amounts of the investment properties are approximately HK$308,776,000 (2012: HK$245,692,000). For the valuation methodologies and assumptions used for the valuation of the investment properties, please refer to note 17 for details.

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

Key sources of estimation uncertainty *(Continued)*

Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The board of directors of the Company has determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of these assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The directors of the Company regularly assess the impact and the cause of fluctuations in the fair value of the assets.

Notes 6, 16 and 17 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets.

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. The Group also recognises expense for an uncertainty arises about the collectibility of an amount already included in contract revenue, and already recognised in profit or loss,.

During the year ended 31 December 2013, construction contracts income and expense in respect of the uncertainty arises about the collectability amounting to approximately HK$348,164,000 and HK$94,493,000 respectively (nine months ended 31 December 2012: HK$221,232,000 and nil respectively) were recognised in the consolidated statement of profit or loss.

Depreciation of property, plant and equipment

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

Estimated impairment of property, plant and equipment

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 2013, the carrying amount of property, plant and equipment is approximately HK$233,434,000 (net of accumulated depreciation and impairment loss of approximately HK$17,605,000) (2012: carrying amount of approximately HK$38,653,000 (net of accumulated depreciation and impairment loss of approximately HK$14,301,000)). No impairment losses were recognised for the year ended 31 December 2013 (nine months ended 31 December 2012: nil).

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

Key sources of estimation uncertainty *(Continued)*

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 2013, the carrying amount of goodwill is approximately HK$445,850,000, net of accumulated impairment loss of nil (2012: carrying amount of approximately HK$445,850,000, net of accumulated impairment loss of nil). No impairment losses were recognised for the year ended 31 December 2013 (nine months ended 31 December 2012: nil).

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 2013, the carrying amounts of inventories were approximately HK$17,166,000 (2012: HK$23,899,000). The write-down of inventories recognised for the year ended 31 December 2013 were approximately HK$2,016,000 (nine months ended 31 December 2012: nil).

Estimated impairment of trade and retention receivables, and deposits 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 2013, the carrying amounts of trade and retention receivables were of approximately HK$129,237,000, net of allowance for doubtful debts of approximately HK$10,416,000 (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), and deposits and other receivables are approximately HK$57,334,000, net of allowance for doubtful debts of approximately HK$3,302,000 (2012: the carrying amount of deposit and other receivables were of approximately HK$60,258,000, net of allowance for doubtful debts of approximately HK$2,269,000) respectively. The impairment losses recognised for the year ended 31 December 2013 were approximately HK$11,466,000 and HK$1,033,000 in respect of trade receivables, and deposits and other receivables (nine months ended 31 December 2012: approximately HK$53,000 and nil) respectively.

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 2013, the carrying value of interests in associates is approximately HK$57,570,000 (2012: HK$61,334,000). No impairment losses were recognised for the year ended 31 December 2013 (nine months ended 31 December 2012: nil).

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 period.

The capital structure of the Group consists of net borrowings, which includes borrowings and cash and cash equivalents disclosed in note 40 and 33 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

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

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

	2013	2012
	HK$'000	*HK$'000*
Total borrowings	**512,321**	–
Equity *(Note)*	**1,642,612**	1,500,138
Gearing ratio	**31%**	N/A

Note: Equity includes all capital and reserves attributable to owners of the Company.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2013	2012
	HK$'000	*HK$'000*
Financial assets		
FVPTL – held for trading financial assets	**40**	45
Loans and receivables (including cash and cash equivalents)	**833,269**	362,762
Available-for-sale investments	**512**	498
Financial liabilities		
Amortised cost	**795,842**	223,152

6. FINANCIAL INSTRUMENTS *(Continued)*

(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 paid for the acquisition of a subsidiary, refundable deposit paid for setting up of a joint venture, 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 related companies, amounts due to associates and borrowings.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

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

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

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

	Assets		**Liabilities**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**4,906**	7,645	–	–
Bank balances and cash	**34,822**	36,754	–	–
Accrued liabilities and other payables	–	–	**3,761**	4,668
Total exposure	**39,728**	44,399	**3,761**	4,668

Sensitivity analysis

The Group is mainly exposed to HK$.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

For a 5% (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.

	2013	2012
	HK$'000	*HK$'000*
HK$	**(1,349)**	(1,490)

(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 borrowings. 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's cash flow interest rate risk is mainly concentrated on the fluctuation of the RMB Base Lending Rate stipulated by the People's Bank of China arising from the Group's RMB denominated loan.

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2013 would decrease/increase by approximately HK$1,699,000 (nine months ended 31 December 2012: increase/decrease by approximately HK$512,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings 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 have been determined based on the exposure to equity price risks for investments in equity instruments carried at fair value at the end of the reporting period. If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, the effect to the profit or loss of the Group is insignificant.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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% (2012: 100%) of the total trade and retention receivables as at 31 December 2013.

The Group has a concentration of credit risk as 32% and 45% (2012: 9% and 36%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 December 2013 within the shallow ground source energy business segment.

With respect to credit risk arising from amount due from an associate, 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 amount due from this associate.

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 *HK$'000*	More than one year but not exceeding two years *HK$'000*	More than two years but not more than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
31 December 2013					
Non-derivative financial liabilities					
Trade payables	125,463	–	–	125,463	125,463
Accrued liabilities and other payables	148,219	–	–	148,219	148,219
Amount due to related companies	560	–	–	560	560
Amount due to associates	9,279	–	–	9,279	9,279
Borrowings	39,705	39,705	540,821	620,231	512,321
	323,226	39,705	540,821	903,752	795,842

	Within 1 year or on demand *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *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 related companies	16,117	16,117	16,117
Amount due to associates	20,512	20,512	20,512
	223,152	223,152	223,152

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements recognised in the consolidated statement of financial position

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's held-for-trading financial asset is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial asset is determined.

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	2013	2012		
Held-for-trading non-derivative financial assets classified as held-for-trading financial assets in the statement of financial position (see note 32)	**Listed securities in the Stock Exchange: – Infrastructure: HK$40,000**	Listed securities in the Stock Exchange: – Infrastructure: HK$45,000	Level 1	Quoted bid prices in an active market.

There were no transfers between levels of fair value hierarchy in the current year and prior period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

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.

7. TURNOVER

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

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Sales and installation of shallow ground source energy utilisation system	**348,164**	221,232
Maintenance services for shallow ground source energy utilisation system	**6,121**	4,239
Rental income *(Note (i))*	**9,377**	5,519
	363,662	230,990

7. TURNOVER *(Continued)*

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

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Gross rental income	**9,377**	5,519
Less: direct operating expenses from investment properties that generated rental income during the year/period	**(2,425)**	(677)
Net rental income	**6,952**	4,842

8. SEGMENT INFORMATION

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

(a) Shallow ground source energy segment – provision, installation and maintenance of shallow ground source 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 year ended 31 December 2013

	Shallow ground source energy	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**354,285**	**–**	**9,377**	**363,662**
Segment results	**109**	**(5)**	**248,855**	**248,959**
Share of results of associates				**(6,237)**
Unallocated other income				**2,605**
Unallocated expenses				**(79,855)**
Unallocated finance costs				**(10,223)**
Profit before tax				**155,249**

For the nine months ended 31 December 2012

	Shallow ground source 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

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 borrowings. 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

	2013	2012
	HK$'000	*HK$'000*
Shallow ground source energy	**1,264,449**	1,146,007
Securities investment and trading	**7,018**	9,646
Properties investment and development	**698,142**	591,254
Total segment assets	**1,969,609**	1,746,907
Unallocated corporate assets	**725,687**	243,906
Consolidated total assets	**2,695,296**	1,990,813

Segment liabilities

	2013	2012
	HK$'000	*HK$'000*
Shallow ground source energy	**291,039**	225,920
Securities investment and trading	**3,666**	3,192
Properties investment and development	**39,034**	84,882
Total segment liabilities	**333,739**	313,994
Unallocated corporate liabilities	**680,987**	137,001
Consolidated total liabilities	**1,014,726**	450,995

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, consideration paid for the acquisition of a subsidiary, refundable deposit paid for setting up of a joint venture, bank balances and cash and unallocated corporate assets; and

- all liabilities are allocated to operating segments other than amounts due to related companies, amounts due to associates, borrowings, deferred tax liabilities and tax payable.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2013

	Shallow ground source energy	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	194,348	–	762	195,110
Development cost paid for investment properties under construction	–	–	126,115	126,115
Impairment loss recognised in respect of trade receivables	11,466	–	–	11,466
Fair-value changes on held-for-trading financial assets	–	5	–	5
Reversal of impairment loss recognised in respect of trade receivables in prior years	(9,764)	–	–	(9,764)
Depreciation	3,378	–	1,149	4,527
Fair-value changes on investment properties	–	–	(72,896)	(72,896)
Imputed interest income on receipt in advance	–	–	(6,837)	(6,837)
Imputed interest expense on receipt in advance	–	–	5,440	5,440
Imputed interest expense on prepayments	404	–	5,007	5,411
Loss on refunds of receipt in advance	–	–	16,385	16,385
Gain on disposal of a portion of investment properties	–	–	(188,733)	(188,733)
Write-down of inventories	2,016	–	–	2,016
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	57,570	–	–	57,570
Share of results of associates	6,237	–	–	6,237
Interest income	(2,074)	–	–	(2,074)
Interest expenses	10,223	–	–	10,223
Income tax expenses	7,689	–	48,260	55,949

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the nine months ended 31 December 2012

	Shallow ground source 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 for investment properties under construction	–	–	82,867	82,867
Reversal of impairment loss recognised in respect of trade receivables in prior years	(52)	–	–	(52)
Depreciation and amortisation	2,661	296	649	3,606
Impairment loss recognised in respect of trade receivables	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 receivables	(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

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 prepayments 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.

8. SEGMENT INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	Year ended 31 December 2013 HK$'000
Customer A[1]	75,772
Customer B[1]	41,045
	116,817

[1] Revenue from shallow ground source energy business

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the nine months ended 31 December 2012.

9. OTHER INCOME

	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
Bank interest income	2,074	1,072
Government grants *(Note)*	1,314	8,755
Gain on disposal of property, plant and equipment	–	2,523
Gain on disposal of land use rights	–	4,924
Change in fair value of held-for-trading financial assets	–	20
Compensation received	845	2,387
Sale of scrap materials	2,234	4,311
Imputed interest income on other receivables	–	346
Imputed interest income on receipt in advance	6,837	17,002
Possession fee income	2,031	–
Others	508	570
	15,843	41,910

Note: Included in the amount of government grants recognised during the year ended 31 December 2013, approximately HK$1,369,000 were received in respect of certain research projects of the Group, the Group fulfilled the relevant granting criteria and recognised the government grants amounted to approximately HK$1,314,000 (nine months ended 31 December 2012: HK$1,375,000) as other income immediately during the year. No government grants previously received were recognised (nine months ended 31 December 2012: HK$7,380,000) during the year ended 31 December 2013 (note 39).

10. FINANCE COSTS

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Interest on borrowings wholly repayable within five years	**10,223**	53
Imputed interest expense on prepayments *(note 24)*	**5,411**	–
Imputed interest expense on receipt in advance *(note 38)*	**5,440**	2,594
	21,074	2,647

11. INCOME TAX EXPENSE

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Current tax:		
PRC EIT	**35,802**	11,984
Under provision in prior years:		
PRC EIT	**–**	1
Deferred tax *(note 25)*:		
PRC EIT	**14,172**	5,214
LAT	**5,975**	10,246
	55,949	27,445

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year/period.

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

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

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprise in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2013 (nine months ended 31 December 2012: 15%).

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.

11. INCOME TAX EXPENSE *(Continued)*

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

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Profit before tax	**155,249**	73,501
Tax at the domestic income tax rate	**43,110**	20,179
Under-provision in prior years	**–**	1
Tax effect of share of results of associates	**1,559**	68
Tax effect of expenses not deductible for tax purpose	**41,775**	8,147
Tax effect on investment properties for deferred tax purposes	**5,975**	4,298
Tax effect of income not taxable for tax purpose	**(14,902)**	(3,117)
Income tax on concessionary rate	**(21,568)**	(2,131)
Tax expense for the year/period	**55,949**	27,445

12. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Profit for the year/period has been arrived at after (crediting)/charging:		
Staff costs, including directors' emoluments *(note 13)*		
– Wages and salaries	**44,544**	25,543
– Retirement benefits scheme contributions	**7,133**	4,239
– Share-based payments	**20,139**	3,491
	71,816	33,273
Cost of inventories sold	**178,684**	151,710
Change in fair value of held-for-trading financial assets	**5**	(20)
Depreciation of property, plant and equipment	**4,527**	2,637
Amortisation of intangible assets	**–**	969
Auditor's remuneration	**2,100**	2,291
Minimum lease payments under operating leases in respect of land and buildings	**9,436**	5,495
Loss on uncertainty in respect of collectability of amount due from customers for contract work	**94,493**	–
Loss on disposal of property, plant and equipment	**305**	–
Write-down of inventories	**2,016**	–
Impairment loss recognised in respect of deposit and other receivable	**1,033**	–
Research costs (included in administrative expenses)*	**14,533**	16,856

* 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 year/period are as follows:

	For the year ended 31 December 2013				
	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	–	1,905	15	1,213	3,133
Mr. Xu Shengheng*	–	3,313	15	1,213	4,541
Mr. Zheng Qiyu *(Note 3)*	–	–	–	–	–
Mr. Zang Yiran *(Note 4)*	–	1,431	–	–	1,431
Non-executive directors:					
Mr. Zhao Youmin *(Note 5)*	–	–	–	–	–
Mr. Daiqi *(Note 5)*	–	1,112	–	–	1,112
Ms. Wu Xiaohua *(Note 8)*	–	–	–	363	363
Ms. Xu Genghong *(Note 8)*	–	–	–	–	–
Independent non-executive directors:					
Mr. Hu Zhaoguang *(Note 2)*	–	–	–	–	–
Mr. Jia Wenzeng	150	–	–	259	409
Mr. Wu DeSheng	150	–	–	259	409
Total	300	7,761	30	3,307	11,398

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

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

	For the nine months ended 31 December 2012				
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,440	11	–	1,451
Mr. Xu Shengheng*	–	1,440	11	–	1,451
Mr. Wu Shu Min *(Note 6)*	–	128	–	–	128
Mr. Zheng Qiyu *(Note 3)*	–	–	–	–	–
Non-executive directors:					
Ms. Wu Xiaohua *(Note 8)*	–	–	–	–	–
Ms. Xu Genghong *(Note 8)*	–	–	–	–	–
Mr. Zang Yiran *(Note 4)*	–	216	34	–	250
Mr. Fu Hui Zhong *(Note 6)*	20	–	–	–	20
Ms Luk Hoi Man *(Note 1)*	92	–	–	–	92
Independent non-executive directors:					
Mr. Hu Zhaoguang *(Note 2)*	–	–	–	–	–
Mr. Chow Wan Hoi, Paul *(Note 7)*	40	–	–	–	40
Mr. Jia Wenzeng	103	–	–	–	103
Mr. Wu DeSheng	106	–	–	–	106
Total	361	3,224	56	–	3,641

Notes:

(1) Resigned on 24 August 2012

(2) Appointed on 30 July 2012

(3) Appointed on 24 August 2012

(4) Appointed on 24 August 2012 and redesignated as an executive director on 22 March 2013

(5) Appointed on 12 August 2013

(6) Resigned on 24 April 2012

(7) Resigned on 31 July 2012

(8) Appointed on 24 August 2012 and resigned as non-executive director on 12 August 2013

* Mr. Xu Shengheng is also the chief executive of the Company for the year/period 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 year/period.

During the year/period, 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 (nine months ended 31 December 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 (nine months ended 31 December 2012: two) individuals were as follows:

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Salaries and other benefits	**2,640**	896
Retirement benefits scheme contributions	**–**	21
	2,640	917

The emolument of the above employees was ranged from HK$1,000,001 to HK$1,500,000 during the year ended 31 December 2013 (nine months ended 31 December 2012 ranged from nil to HK$1,000,000).

During the year/period, 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

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Dividends recognised as distribution during the year:		
2012 Final – HK0.4 cents (2012: nil) per share	**11,611**	–

Final dividend for the year ended 31 December 2013

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2013 of HK0.5 cents (2012: final dividend in respect of the nine months ended 31 December 2012 of HK0.4 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

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:

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Earnings		
Profit for the year/period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**101,810**	45,951

	Year ended 31 December 2013	Nine months ended 31 December 2012
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,902,827**	2,474,655
Effect of dilutive potential ordinary shares:		
Share options *(Note)*	**8,517**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,911,344**	2,474,655

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 *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*
COST OR VALUATION								
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
At 1 January 2013	7,836	2,693	16,513	2,692	4,910	9,303	9,007	52,954
Exchange realignment	2,850	53	405	81	147	197	326	4,059
Additions	185,196	1,475	994	205	484	2,616	4,140	195,110
Disposals	–	–	–	(35)	(23)	(1,674)	–	(1,732)
Written off	–	–	(3)	(50)	(51)	–	–	(104)
Deregistration of subsidiaries	–	–	–	(10)	(11)	–	–	(21)
Revaluation	773	–	–	–	–	–	–	773
At 31 December 2013	196,655	4,221	17,909	2,883	5,456	10,442	13,473	251,039
Comprising								
At cost	–	4,221	17,909	2,883	5,456	10,442	13,473	54,384
At valuation	196,655	–	–	–	–	–	–	196,655
	196,655	4,221	17,909	2,883	5,456	10,442	13,473	251,039

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

	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*
DEPRECIATION AND IMPAIRMENT								
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
At 1 January 2013	–	1,268	1,962	2,465	3,836	4,770	–	14,301
Exchange realignment	–	31	57	48	91	75	–	302
Provided for the year	320	144	1,842	177	385	1,659	–	4,527
Eliminated on deregistration of subsidiaries	–	–	–	(6)	(8)	–	–	(14)
Eliminated on revaluation	(320)	–	–	–	–	–	–	(320)
Eliminated on disposal	–	–	–	(35)	(24)	(1,028)	–	(1,087)
Written back	–	–	(3)	(50)	(51)	–	–	(104)
At 31 December 2013	–	1,443	3,858	2,599	4,229	5,476	–	17,605
CARRYING VALUES								
At 31 December 2013	196,655	2,778	14,051	284	1,227	4,966	13,473	233,434
At 31 December 2012	7,836	1,425	14,551	227	1,074	4,533	9,007	38,653

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

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

During the year ended 31 December 2013, the Group and 北京市四博連通用機械新技術公司 ("四博連"), the related company of the Group, entered into the sale and purchase agreement, pursuant to which, the Group sold, and 四博連 agreed to purchase certain investment properties of the Group in exchange for office buildings and cash consideration of approximately RMB113,037,000 (approximately HK$142,758,000).

The transfer of office buildings was completed by 31 December 2013. On the date of transfer, the fair value of the office buildings acquired were approximately RMB146,640,000 (approximately HK$185,196,000). Together with the cash consideration of approximately RMB113,037,000 (approximately HK$142,758,000), the deemed consideration in respect of the sale of investment properties was approximately RMB259,677,000 (approximately HK$327,954,000). Further details of which are set out in note 17.

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$196,885,000 (2012: HK$7,336,000).

The Group is in the process of obtaining the ownership certificates for certain buildings at a carrying amount of approximately HK$187,817,000 (2012: nil).

Fair value measurement of the Group's land and buildings

The Group's land and buildings was valued on 31 December 2013 and 31 December 2012 by Peak Vision Appraisals Limited ("Peak Vision"), independent valuers not related to the Group.

The fair value of the leasehold land and building in Dalian of approximately HK$8,838,000 (2012: HK$7,836,000) was determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the land and building under review. There has been no change to the valuation technique during the year.

The fair value of office buildings in Beijing acquired in December 2013 was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield is determined by reference to the yields derived from analysing the sales transactions of similar properties in PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's office building.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

Details of the Group's leasehold land and building and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	**Fair value as at 31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
A office building in Dalian:				
– leasehold land and building	–	8,838	–	**8,838**
A office building in Beijing:				
– building	–	–	187,817	**187,817**

There were no transfers between levels of fair value hierarchy during the year.

The following tables give information about how the fair values of these leasehold land and buildings are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
At 31 December 2013				
Office buildings in Beijing HK$187,817,000	Level 3	Income approach The key inputs are: 1. Market unit rent 2. Market yield;	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of RMB4.5 sq. m. per day.	The increase in the market unit rent would result in an increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 5.5%	The increase in the market yield would result in a decrease in fair value.
Leasehold land and building in Dalian HK$8,838,000	Level 2	Direct comparison method based on market observable transactions of similar properties and adjusts to reflect the conditions and locations of the subject property.	N/A	N/A

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

The reconciliation of level 3 fair value measurements of properties is as follows:

	Office buildings in Beijing *HK$'000*
Opening balance	–
Additions	185,196
Exchange realignment	2,621
	187,817

17. INVESTMENT PROPERTIES

	Investment properties under construction or development at fair value *HK$'000*	Investment properties under construction or development at cost *HK$'000*	Investment properties at fair value *HK$'000*	Total *HK$'000*
At 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 27)*	(36,680)	–	–	(36,680)
Fair value gains recognised in the consolidated statement of profit or loss	44,646	–	–	44,646
Exchange realignment	1,190	1,077	–	2,267
At 31 December 2012 and 1 January 2013	136,699	108,993	–	245,692
Development costs paid	20,883	105,232	–	126,115
Disposal *(note 47)*	–	(144,005)	–	(144,005)
Transfer upon completion	–	(72,909)	72,909	–
Fair value gains recognised in the consolidated statement of profit or loss	30,392	–	42,504	72,896
Exchange realignment	4,787	2,689	602	8,078
At 31 December 2013	192,761	–	116,015	308,776

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

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.

During the year ended 31 December 2013, the Group has entered into the sale and purchase agreement with an individual third party and 四博連, pursuant to which, the Group sold, and the individual third party and 四博連 agreed to purchase certain investment properties of the Group at the consideration of RMB22,000,000 (approximately HK$27,784,000) and RMB259,677,000 (approximately HK$327,954,000) respectively.

17. INVESTMENT PROPERTIES *(Continued)*

The disposal consideration for the sale to the individual third party was satisfied with cash and was completed by 31 December 2013. It resulted in gain on disposal of approximately RMB12,636,000 (approximately HK$15,958,000). For the disposal consideration for the sale to 四博連, it is satisfied with office building amounted to approximately RMB146,640,000 (approximately HK$185,196,000) (notes 16 and 47) and cash consideration of approximately RMB113,037,000 (approximately HK$142,758,000). The transfers of office buildings and investment properties were completed by 31 December 2013. The sale of the investment properties to 四博連 resulted in gain on disposal of approximately RMB136,805,000 (approximately HK$172,775,000) during the year ended 31 December 2013.

The Group is in the process of obtaining the ownership certificates for certain investment properties at a carrying amount of approximately HK$116,015,000 (2012: HK$123,919,000).

The fair values of investment properties as at 31 December 2013, 31 December 2012 and transfer to properties held for sale under development during nine months ended 31 December 2012 have been arrived at on the basis of valuations carried out on the respective dates by Peak Vision, independent qualified professional valuers not connected to the Group.

The fair value of investment properties in Beijing was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the exiting tenancies, rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield is determined by reference to the yields derived from analysing the sales transactions of similar properties in PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

Certain investment properties in Dalian under construction or development are measured at fair value. The valuations have been arrived at with adoption of the residual approach with the basis that they will be developed and completed in accordance with the latest development proposals and taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development. Other investment properties in Dalian under construction or development are determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the investment properties under review. There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Detail of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follow:

	Level 1	Level 2	Level 3	**Fair value as at 31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Industrial and ancillary property units located in Beijing, PRC	–	–	116,015	**116,015**
Commercial property units located in Dailan, PRC	–	30,611	–	**30,611**
Residential property units located in Dalian, PRC	–	–	162,150	**162,150**

There were no transfers between levels of fair value hierarchy during the year.

17. INVESTMENT PROPERTIES *(Continued)*

The following tables give information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorized (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Carrying value of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
At 31 December 2013				
Industrial and ancillary properties in Beijing HK$116,015,000	Level 3	Income approach The key inputs are: 1. Market unit rent 2. Market yield;	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of range from RMB1.5 sq. m. to RMB2.9 sq. m. per day.	The increase in the market unit rent would result in an increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 7.5%	The increase in the market yield would result in a decrease in fair value.
Residential properties in Dalian HK$162,150,000	Level 3	Residual Approach The key inputs are: 1. Market unit sales rate (RMB/sq.m.)	Market unit sales rate, using market direct comparable and taking into account of location and other individual factors at RMB4,053/sq.m.	The increase in the market unit sales rate would result in an increase in fair value.
		2. Developer's profit and risk rate	Developer's profit and risk rate, taking into account of the progress of the property of 5%.	The increase in the developer's profit and risk rate would result in a decrease in fair value.
Commercial properties in Dalian HK$30,611,000	Level 2	Direct comparison method based on market observable transactions of similar properties and adjusts to reflect the conditions and locations of the subject property.	N/A	N/A

The reconciliation of level 3 fair value measurements of investment properties is as follows:

	Industrial and ancillary properties in Beijing *HK$'000*	Residential properties in Dalian *HK$'000*	Total *HK$'000*
Opening balance	–	121,773	121,773
Development cost paid	–	8,147	8,147
Cost transferred upon completion	72,909	–	72,909
Total gain included in profit or loss	42,504	28,099	70,603
Exchange realignment	602	4,131	4,733
	116,015	162,150	278,165

The above changes in fair value recognised in profit or loss of approximately HK$70,603,000 are included in "Fair value changes on investment properties" presented on the face of the consolidated statement of profit or loss and is attributable to the change in unrealised gains or losses relating to investment properties held at the end of the reporting period.

18. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2012 and 31 December 2013, deposit paid for acquisition of land use rights represents RMB190,800,000 (approximately HK$244,377,000) paid to Dalian Jinzhou New District Land and Housing Authority ("Dalian 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"). On 21 February 2013, a strategic co-operation framework agreement was entered into between the Company and Accord Sunny Investment 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.

Up to the date of this report, the deposit is still kept by Dalian Land and Housing Authority and pending to further actions upon the approval of the co-operation arrangements for the Land by the related government body.

19. GOODWILL

	HK$'000
COST AND CARRYING VALUES	
At 1 April 2012, 31 December 2012 and 31 December 2013	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 ground source energy segment.

The Group conducted impairment review on goodwill attributable to the shallow ground source energy segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the shallow ground source 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 12.91% (2012: 14.16%) per annum. The cash flows beyond the three-year period were extrapolated using a steady growth rate of 3% (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 ground source energy segment to exceed its aggregate recoverable amount.

20. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 April 2012	6,152
Exchange realignment	53
At 31 December 2012 and 31 December 2013	6,205
AMORTISATION	
At 1 April 2012	5,181
Exchange realignment	55
Charge for the period	969
At 31 December 2012 and 31 December 2013	6,205
CARRYING VALUES	
At 31 December 2012 and 31 December 2013	–

The above technical know-how was acquired through the acquisition of certain subsidiaries of the Group in prior years. The technical know-how was amortised over its respective useful life of five years on a straight-line basis.

21. INTERESTS IN ASSOCIATES

	2013 *HK$'000*	2012 *HK$'000*
Cost of unlisted investments in associates	**73,862**	71,731
Share of post-acquisition results and other comprehensive income, net of dividends received	**(16,292)**	(10,397)
	57,570	61,334

21. INTERESTS IN ASSOCIATES *(Continued)*

Details of each of the Group's material associates at the end of the reporting period are as follow:

Name of entity	Form of entity	Place of incorporation and operation	Registered share capital	Proportion of ownership interest and proportion of voting rights held by the Group 2013	2012	Principal activity
恒有源投資管理有限公司 (Ever Source Investment Management Company Limited)* ("Ever Source Investment")	Limited liability company	PRC	RMB79,000,000	**37.97%**	37.97%	Provision of business planning, consulting and management services and promotion
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd)* ("BEHP")	Limited liability company	PRC	US$300,000	**49%**	49%	Production and sales of machineries geothermal energy systems

* English name is for identification purpose only.

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

Ever Source Investment	**2013** *HK$'000*	2012 *HK$'000*
Non-current assets	**94,579**	82,960
Current assets	**1,448**	15,170
Current liabilities	**(11,873)**	–
Non-current liabilities	**–**	–

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Revenue	**–**	–
Loss for the year/period	**(16,655)**	(991)
Other comprehensive income for the year/period	**2,679**	1,606
Total comprehensive (expense) income for the year/period	**(13,976)**	615
Dividend received from the associate during the year/period	**–**	–

21. INTERESTS IN ASSOCIATES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ever Source Investment recognised in the consolidated financial statements:

	2013	2012
	HK$'000	*HK$'000*
Net assets of the associate	**84,154**	98,130
Proportion of the Group's ownership interest in Ever Source Investment	**37.97%**	37.97%
Carrying amount of the Group's interest in Ever Source Investment	**31,953**	37,260

BEHP	2013	2012
	HK$'000	*HK$'000*
Non-current assets	**5,463**	5,651
Current assets	**66,928**	61,254
Current liabilities	**(21,096)**	(18,758)
Non-current liabilities	–	–

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Revenue	**52,340**	43,368
Profit (loss) for the year/period	**177**	(96)
Other comprehensive income (expense) for the year/period	**2,971**	(599)
Total comprehensive income (expense) for the year/period	**3,148**	(695)
Dividend received from the associate during the year/period	–	1,454

21. INTERESTS IN ASSOCIATES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in BEHP recognised in the consolidated financial statements:

	2013	2012
	HK$'000	*HK$'000*
Net assets of the associate	**51,295**	48,147
Proportion of the Group's ownership interest in BEHP	**49%**	49%
Goodwill	**482**	482
Carrying amount of the Group's interest in BEHP	**25,617**	24,074

22. AVAILABLE-FOR-SALE INVESTMENTS

	2013	2012
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note)*	**512**	498

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. CONSIDERATION RECEIVABLE

The consideration receivable as at 31 December 2012 represented remaining consideration receivable for the transfer of the contract of acquisition of land use rights to an independent third party in 2011. The amount was fully received by the Group during the year ended 31 December 2013 in accordance with the settlement agreement entered into between the Group and the independent third party.

24. PREPAYMENTS

The prepayments represent the rental payment prepaid to a related company as the landlord for the warehouses and the properties sub-leased. The lease period were around 8 years commencing from July 2013 and thus a portion of the prepayments amounted to HK$20,841,000 is included under non-current assets. The prepayments due within one year of approximately HK$3,346,000 as at 31 December 2013 has been included in prepayments under current assets (note 29).

The prepayments to the related company were all unsecured and interest free.

25. DEFERRED TAX

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

	Allowance for doubtful debts	Revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2012	21,690	(22,933)	(1,243)
Exchange realignment	186	(360)	(174)
Charged to consolidated statement of profit or loss for the period	–	(15,460)	(15,460)
At 31 December 2012	21,876	(38,753)	(16,877)
Exchange realignment	582	(1,432)	(850)
Charged to consolidated statement of profit or loss for the year	(196)	(19,951)	(20,147)
At 31 December 2013	22,262	(60,136)	(37,874)

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

	2013	2012
	HK$'000	*HK$'000*
Deferred tax assets	**22,262**	21,876
Deferred tax liabilities	**(60,136)**	(38,753)
	(37,874)	(16,877)

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 RMB317,536,000 (2012: RMB254,846,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. INVENTORIES

	2013	2012
	HK$'000	*HK$'000*
Raw materials	**17,134**	20,530
Finished goods	**32**	3,369
	17,166	23,899

27. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	HK$'000
At 1 April 2012	–
Transfer from investment properties *(note 17)*	36,680
Additions	51,955
Exchange realignment	936
At 31 December 2012	89,571
Additions	13,581
Exchange realignment	2,853
At 31 December 2013	106,005

During the nine months ended 31 December 2012, 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.

28. TRADE AND RETENTION RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**103,026**	59,550
Less: allowance for doubtful debts	**(10,416)**	(8,560)
	92,610	50,990
Retention receivables	**36,627**	36,070
	129,237	87,060

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 from the completion and inspection of the construction projects, 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.

28. TRADE AND RETENTION RECEIVABLES *(Continued)*

	2013	2012
	HK$'000	HK$'000
Within 90 days	23,749	6,124
91 to 180 days	44,336	2,910
181 to 365 days	6,479	11,321
Over 365 days	18,046	30,635
	92,610	50,990

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$56,470,000 (2012: HK$30,635,000) 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 aging of trade receivables which were past due but not impaired is as follows:

	2013	2012
	HK$'000	HK$'000
Over 120 days	38,424	–
Over 365 days	18,046	30,635
	56,470	30,635

The Group's neither past due nor impaired trade receivables of approximately HK$36,140,000 (2012: HK$20,355,000) 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 in respect of trade receivables is as follows:

	2013	2012
	HK$'000	HK$'000
Balance at the beginning of the year/period	8,560	8,479
Exchange realignment	271	80
Eliminated through deregistration of subsidiaries	(117)	–
Impairment losses recognised	11,466	53
Impairment losses reversed	(9,764)	(52)
Balance at the end of the year/period	10,416	8,560

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK$10,416,000 (2012: HK$8,560,000) which have been placed in severe financial difficulties.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Prepayments	12,342	13,620
Rental prepayments *(note 24)*	3,346	–
Deposits	26,359	27,950
Other receivables	34,277	34,577
Less: allowance for doubtful debts	(3,302)	(2,269)
	73,022	73,878

The Group did not hold any collateral over these balances.

As at 31 December 2013, included in the other receivables, approximately HK$16,092,000 (2012: HK$15,488,000) were consideration receivable from disposal of a subsidiary to be settled by transfer of properties. As at 31 December 2012, 31 December 2013 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.

Allowance in respect of deposit and 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 deposits and other receivables balance directly. The movement in the allowance for doubtful debts is as follows:

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of year/period	2,269	2,269
Impairment losses recognised on deposit and other receivables	1,033	–
Balance at end of the year/period	3,302	2,269

Included in the allowance for doubtful debts were individually impaired deposit and other receivables with an aggregate balance of approximately HK$3,302,000 (2012: HK$2,269,000) which have been placed in severe financial difficulties.

30. CONSIDERATION PAID FOR THE ACQUISITION OF A SUBSIDIARY/ REFUNDABLE DEPOSIT PAID FOR SETTING UP OF A JOINT VENTURE

(i) As at 31 December 2013, the Group held a 37.97% interest in Ever Source Investment and accounted for the investment as an associate. On 5 December 2013, the Group has entered into a sale and purchase agreement to acquire the remaining 62.03% equity interest in Ever Source Investment from 四博連, at a consideration of RMB49,000,000 (approximately HK$62,759,000). The consideration paid for the acquisition of Ever Source Investment is refundable and classified as current assets as at 31 December 2013. The acquisition was completed on 24 January 2014, further details of the acquisition are set out in note 50(i).

(ii) On 19 April 2013, the Group has entered into the joint venture contract ("JV Contract") with Zhejiang CECEP Green Construction Environmental Protection Technology Ltd ("Zhejiang CECEP"), a fellow subsidiary of the substantial shareholder of the Group, for the formation of a company in PRC ("JV Company"). The Group has paid a deposit amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) for the formation of JV Company. Details of which are set out in the announcement dated on 19 April 2013 and the transaction was subjected to the reporting, announcement and independent shareholders' approval requirements under GEM Listing Rules. According to the JV Contract, the JV Contract will be lapsed if the approval of independent shareholders were not obtained on or before 31 December 2013.

Subsequent to the end of the reporting period, on 14 January 2014, the JV Contract was terminated upon the Group has entered into the sale and purchase agreement with Tianjin Rong Chuang Ao Cheng Investment Company Limited ("Rong Chuang"), a company independent to the Group incorporated in PRC, for the sale and purchase of the rights to inject capital into the JV Company up to 49% ("Equity Interest"). Further details are set out in note 50(ii).

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

	2013	2012
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**574,655**	602,980
Less: progress billings	**(204,105)**	(166,588)
	370,550	436,392
Analysed for reporting purposes as:		
Gross amounts due from customers for contract work	**389,506**	448,513
Gross amounts due to customers for contract work	**(18,956)**	(12,121)
	370,550	436,392

As at 31 December 2013, retentions held by customers for contract works amounted to approximately HK$22,349,000 (2012: HK$26,692,000). Advances received from customers for contract works included in deposits received amounted to approximately HK$6,237,000 (2012: HK$6,717,000). At the end of both reporting periods, the management expected that the advances received from customers for contract works would be realised within twelve months after the end of the respective reporting period.

31. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK *(Continued)*

During the year ended 31 December 2013, expense in respect of the uncertainty arises about the collectability of the balances amounting to approximately HK$94,493,000 (nine months ended 31 December 2012: nil) were recognised in the consolidated statement of profit or loss. These amounts are long outstanding and not expected to be fully recoverable. Based on past experience, the directors of the Company are of the opinion that no provision for the remaining balances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

32. HELD-FOR-TRADING FINANCIAL ASSETS

	2013	2012
	HK$'000	*HK$'000*
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**40**	45

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

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

As at 31 December 2013, cash held at non-bank financial institutions carried interest at 0.0001% (2012: 0.0001%) per annum.

Short-term bank deposits with maturity less than 3 months carried prevailing market deposit rates from 0.60% to 3.25% (nine months ended 31 December 2012: nil) per annum.

Bank balances and cash carried prevailing market deposit rates from 0.0001% to 0.35% (nine months ended 31 December 2012: 0.35%) per annum.

At 31 December 2013, the Group's bank balances and cash denominated in RMB amounted to approximately RMB395,909,000 (2012: RMB96,214,000).

34. TRADE PAYABLES

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

	2013	2012
	HK$'000	HK$'000
Within 90 days	16,369	12,406
91 to 180 days	3,302	7,105
181 to 365 days	21,839	26,686
Over 365 days	83,953	80,621
	125,463	126,818

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.

35. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2013	2012
	HK$'000	HK$'000
Accrued liabilities	80,760	16,616
Deposits received	20,809	27,568
Receipt in advance *(note 38)*	918	13,011
Other payables	67,459	43,089
	169,946	100,284

36. AMOUNTS DUE TO RELATED COMPANIES

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

37. AMOUNTS DUE FROM (TO) ASSOCIATES

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

38. RECEIPT IN ADVANCE

The receipt in advance represents the rental receipt in advance for the investment properties. The lease period were 20 years commencing from the completion of the investment properties. The investment properties were completed and the lease has been commenced in December 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$918,000 as at 31 December 2013 (2012: HK$13,011,000) has been included in receipt in advance under current liabilities (note 35).

During the year ended 31 December 2013, the Group has disposed of a portion of the investment properties together with the tenancy agreement to a related company. A supplementary agreement was signed between the related company, the tenant and the Group that the receipt in advance received previously by the Group related to the portion sold will be transferred to the related company. Approximately RMB12,974,000 (equivalent to approximately HK$16,385,000) loss on refunds of receipt in advance was recognised in the consolidated statement of profit or loss as a result of the transfer.

39. DEFERRED INCOME

	2013	2012
	HK$'000	HK$'000
Balance at beginning of the year/period	7,463	14,794
Exchange realignment	223	49
Government grants received	1,369	–
Amortisation of deferred income on government grants	(1,314)	(7,380)
Balance at end of the year/period	7,741	7,463

As at 31 December 2013, government grants of approximately HK$7,741,000 (2012: HK$7,463,000) were designated for certain research projects. The amount is stated as non-current liabilities as at 31 December 2013 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 2013.

40. BORROWINGS

	2013	2012
	HK$'000	HK$'000
Entrusted loan not repayable within one year	512,321	–

During the year, the Group obtained entrusted loans in the amount of approximately RMB400,000,000 (equivalent to approximately HK$512,321,000) from 寧波清能投資合夥企業 (有限合夥), an independent third party not connected to the Group, through Bank of Communications Co., Ltd. The loan bear interest at 1 to 3 years benchmark lending interest rate of the People's Bank of China and are repayable on 17 September 2016 according to the entrusted loan agreement. The proceeds were used to finance the working capital of the Group.

The effective interest rate during the year ended 31 December 2013 is 7.75%.

41. SHARE CAPITAL

	Number of shares US$0.01 each		Share capital		Share capital	
	2013	2012	**2013**	2012	**2013**	2012
	'000	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares						
Authorised:						
At beginning and end of the year/period	**16,000,000**	16,000,000	**160,000**	160,000	**1,248,000**	1,248,000
Issued and fully paid:						
At beginning of the year/period	**2,902,827**	2,065,307	**29,028**	20,653	**226,053**	161,092
Issue of subscription shares *(Note a)*	–	850,000	–	8,500	–	65,935
Shares repurchased and cancelled *(Note b)*	–	(12,480)	–	(125)	–	(974)
At end of the year/period	**2,902,827**	2,902,827	**29,028**	29,028	**226,053**	226,053

Notes:

(a) 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.

(b) 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	0.400	0.360	4,017
October 2012	1,896,000	0.380	0.375	722

The above shares were cancelled upon repurchase.

42. DEREGISTRATION OF SUBSIDIARIES

For the year ended 31 December 2013

During the year ended 31 December 2013, the Group deregistered a wholly-owned subsidiary and a non wholly-owned subsidiary, namely Virtue Investments Limited and 瀋陽恒有源科技有限公司 respectively.

Net assets of the deregistered subsidiaries at its respective date of deregistration were as follows:

	Virtue Investments Limited	瀋陽恒有源科技有限公司	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets disposed of:			
Plant and equipment	–	7	7
Inventories	–	595	595
Trade and retention receivable	–	316	316
Prepayments and other receivables	–	45	45
Trade and payables	–	(43)	(43)
Accrued liabilities and other payables	–	(717)	(717)
Net assets	–	203	203
Non-controlling interests	–	(73)	(73)
Release of exchange translation reserve	–	(154)	(154)
Gain on deregistration	–	(24)	(24)
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.

42. DEREGISTRATION OF SUBSIDIARIES *(Continued)*

For the nine months ended 31 December 2012

During the nine months ended 31 December 2012, the Group deregistered a 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 its respective 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.

43. COMMITMENTS

(i) Operating lease

The Group as lessor

The Group sub-leases part of the building and leases the investment properties 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:

	2013 ***HK$'000***	2012 *HK$'000*
Within one year	**10,058**	42,566
In the second to fifth years, inclusive	**43,265**	37,778
Over five years	**80,646**	209,300
	133,969	289,644

43. COMMITMENTS *(Continued)*

(i) Operating lease *(Continued)*

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:

	2013	2012
	HK$'000	*HK$'000*
Within one year	**3,299**	3,044
In the second to fifth years, inclusive	**3,960**	3,570
Over five years	**2,339**	3,271
	9,598	9,885

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

(ii) Others

	2013	2012
	HK$'000	*HK$'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	–	26,121
– Investment properties under construction	**3,020**	62,086
– Acquisition of property, plant and equipment	**1,934**	373
	4,954	88,580

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 28 July 2010.

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.

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)*

Share Option Plan 2010 *(Continued)*

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 *(Note)*
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	
Grant 2	6 February 2013	N/A*	6 February 2013 to 5 February 2015	HK$0.4260
		6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	

* The share options were vested immediately.

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.

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

Share Option Plan 2010 *(Continued)*

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

Year ended 31 December 2013

Date of grant	Outstanding at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2013
Directors					
9 September 2010	30,100,000	–	–	–	30,100,000
6 February 2013	–	31,900,000	–	(3,500,000)	28,400,000
	30,100,000	31,900,000	–	(3,500,000)	58,500,000
Employees					
9 September 2010	129,892,000	–	–	–	129,892,000
6 February 2013	–	158,600,000	–	–	158,600,000
	129,892,000	158,600,000	–	–	288,492,000
Others					
9 September 2010	5,500,000	–	–	–	5,500,000
	165,492,000	190,500,000	–	(3,500,000)	352,492,000
Exercisable at the end of year					193,892,000
Weighted average exercise price	HK$0.426	HK$0.426	–	HK$0.426	HK$0.426

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

Share Option Plan 2010 *(Continued)*

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

For the share options granted on 6 February 2013, 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 Binomial Option Pricing Model. The inputs into the model were as follows:

	9 September 2010	6 February 2013
Share price on the date of grant	**HK$0.415**	HK$.0.425
Exercise price	**HK$0.426**	HK$0.426
Expected volatility	**72%**	43.77%
Expected life	**8.5 years**	2 years
Risk-free rate	**1.95%**	0.258%
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$20,139,000 for the year ended 31 December 2013 (nine months ended 31 December 2012: HK$3,491,000) 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 statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The total expense recognised in profit or loss of HK$7,133,000 (nine months ended 31 December 2012: HK$4,239,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

46. RELATED PARTY TRANSACTIONS

(a) Prepayments to a related company, consideration paid to a related company for acquisition of a subsidiary, amounts due from (to) related companies and associates are included in the consolidated statement of financial position. The terms are set out in notes 24, 29, 30, 36 and 37 respectively.

46. RELATED PARTY TRANSACTIONS *(Continued)*

(b) During the year/period, the Group entered into the following transactions with its related companies, director and associates:

	Notes	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
Operating lease payments paid to a related company		**4,304**	1,716
Rental income from an associate		**(321)**	(160)
Sales to a related company*		**(1,777)**	–
Sales to an associate		**–**	(6)
Sales of plant and machinery to a director		**(340)**	–
Compensation received from an associate		**(845)**	–
Possession charge income from a related company		**(2,031)**	–
Sales of a portion of investment properties to a related company	*17*	**(327,954)**	–
Sales of shallow ground source energy utilisation system to a related company		**(75,772)**	–
Acquisition of office building from a related company	*16*	**185,196**	–
Refunds of receipt in advance to a related company	*38*	**103,104**	–
Consideration paid for the acquisition of a subsidiary	*30(i)*	**62,759**	–
Compensation paid to a related company		**5,575**	–
Consultancy fee paid to a related company		**9,725**	–
Purchase from an associate		**9,093**	14,385

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

* The transactions also constituted continuing connected transaction entered into during the year ended 31 December 2013 as defined in Chapter 20 of the GEM Listing Rules.

(c) Included in trade and retention receivables, there is balance amounted to approximately HK$1,103,000 (2012: nil) with a related company, 中節能(蘇州)環保科技產業園有限公司 ("中節能(蘇州)"). The balance is in trade nature which is unsecured, interest-free and with credit period of 180 days. 中節能(蘇州) is a fellow subsidiary of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd, the substantial shareholder of the Group.

(d) Compensation of key management personnel
The remuneration of directors and other members of key management during the year/period were follows:

	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
Short-term benefits	**8,461**	4,425
Retirement benefits scheme contributions	**30**	77
Share-based payment	**3,307**	3,491
	11,798	7,993

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 TRANSACTION

During the year ended 31 December 2013, the Group has sold a portion of the investment properties with a total deemed consideration of approximately RMB259,677,000 (equivalent to approximately HK$327,954,000). The consideration was satisfied by office buildings with the fair value of approximately RMB146,640,000 (equivalent to approximately HK$185,196,000) and cash consideration of approximately RMB113,037,000 (equivalent to approximately HK$142,758,000). The disposal of a portion of the investment properties and the acquisition of the office building amounted to approximately HK$185,196,000 was netted off without cash flows.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment		747	45
Deposit paid for acquisition of land use rights		244,377	238,500
Interests in subsidiaries	(a)	836,134	836,134
		1,081,258	1,074,679
Current assets			
Prepayments, deposits and other receivables		4,692	6,551
Amounts due from subsidiaries	(a)	256,021	255,791
Bank balances and cash		29,350	28,808
		290,063	291,150
Current liabilities			
Accrued liabilities and other payables		2,002	2,000
Amounts due to subsidiaries	(b)	55,985	35,318
		57,987	37,318
Net current assets		232,076	253,832
Net assets		1,313,334	1,328,511
Capital and reserves			
Share capital		226,053	226,053
Reserves	(c)	1,087,281	1,102,458
Total equity		1,313,334	1,328,511

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

Notes:

(a) Interests in subsidiaries

		2013	2012
		HK$'000	*HK$'000*
Unlisted investments, at cost		**43,437**	43,437
Amounts due from subsidiaries – non-current	*(i)*	**1,023,585**	1,023,585
Amounts due from subsidiaries – current	*(ii)*	**256,021**	255,791
		1,323,043	1,322,813
Less: Impairment loss recognised on investment		**(43,437)**	(43,437)
Impairment loss recognised on amounts due from subsidiaries – non-current		**(187,451)**	(187,451)
		(230,888)	(230,888)
		1,092,155	1,091,925
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**256,021**	255,791
		1,092,155	1,091,925

(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 *(note i)* HK$'000	Contributed surplus *(note ii)* HK$'000	Share-based payment reserve *(note iii)* HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 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 41(a))*	282,565	–	–	–	–	–	282,565
Share repurchased and cancelled *(note 41(b))*	(3,765)	–	–	–	–	–	(3,765)
Share issue expense *(note 41(a))*	(100)	–	–	–	–	–	(100)
At 31 December 2012	893,207	154,381	33,196	32,235	–	(10,561)	1,102,458
Loss and total comprehensive expense for the year	–	–	–	–	–	(29,582)	(29,582)
Recognition of share-based payment expenses	–	–	20,139	–	–	–	20,139
Dividends recognised as distribution	(11,611)	–	–	–	–	–	(11,611)
Exchange differences arising on translation	–	–	–	–	5,877	–	5,877
Lapse of share option	–	–	(363)	–	–	363	–
At 31 December 2013	881,596	154,381	52,972	32,235	5,877	(39,780)	1,087,281

(i) 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.

(ii) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior years.

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

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2013 and 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 effective ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2013	2012	2013	2012	2013	2012	
II Networks International Limited##	BVI	Ordinary shares	US$166,667	100%	100%	–	–	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 Company Limited*)	PRC	Registered capital	US$3,000,000	–	–	99.97%	99.97%	100%	100%	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	–	–	94.80%	94.80%	100%	100%	Property management and technical support service
恒有源科技發展集團有限公司# (Ever Source Science and Technology Development Group Co., Ltd*) ("HYY")	PRC	Registered capital	RMB189,188,502	–	–	94.58%	94.58%	94.61%	94.61%	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%	100%	100%	Installation of energy systems
綿陽市金恒源地能科技有限公司# ("金恒源")	PRC	Registered capital	RMB10,000,000	–	–	48.24%	48.24%	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	–	–	99.97%	99.97%	100%	100%	Properties investment and development
Guangsha#	PRC	Registered capital	RMB3,000,000	–	–	–	–	–	–	Provision of design for general industrial and residential architectures.

\# 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 year/period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

Principle activity	Place of incorporation and operation	Number of wholly-owned subsidiaries 2013	2012
Investment holding	Hong Kong	**10**	4
Investment holding	Cayman Islands	**1**	1
Investment holding	BVI	**12**	3
Properties investment and development	the PRC	**6**	–
		29	8

Principle activity	Place of incorporation and operation	Number of non-wholly-owned subsidiaries 2013	2012
Investment holding	Hong Kong	**2**	2
Investment holding	BVI	**1**	1
Production and sales of geothermal energy systems	the PRC	**12**	13
Property management and technical support service	the PRC	**1**	1
Properties investment and development	the PRC	**1**	–
		17	17

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of effective interests held by non-controlling interest		Voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
						HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HYY	the PRC	**5.42%**	5.42%	**5.39%**	5.39%	**9,001**	1,085	**21,404**	11,976
金恒源	the PRC	**51.76%**	51.76%	**49%**	49%	**12,191**	(816)	**18,336**	5,793
Guangsha *(i)*	the PRC	**100%**	100%	**100%**	100%	**–**	–	**3,762**	3,656
Individually immaterial subsidiaries with non-controlling interests						**(23,702)**	(164)	**(5,544)**	18,255
						(2,510)	105	**37,958**	39,680

(i) The Group did not own any equity interest in Guangsha. However, HYY, a subsidiary of the Group had entered into a Structural Agreement with the shareholder of Guangsha in April 2011, for a period of five years without any consideration. Based on the Structural Agreement, the relevant activities, including operating and financing decision, of Guangsha are determined by HYY and HYY would bear/receive the risk/return from Guangsha through the arrangement of management fee/income. Therefore, the directors of the Group concluded that the Group has control over Guangsha and Guangsha is consolidated in these consolidated financial statements.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

HYY

	2013	2012
	HK$'000	*HK$'000*
Non-current assets	**514,207**	284,037
Current assets	**1,023,616**	539,385
Current liabilities	**(535,500)**	(458,214)
Non-current liabilities	**(530,476)**	(67,308)
Equity attributable to owners of the Company	**450,443**	285,924
Non-controlling interests	**21,404**	11,976

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Revenue	**96,824**	71,365
Expenses	**(185,865)**	(85,549)
Profit for the year/period	**166,062**	20,015
Profit attributable to owners of the Company	**157,061**	18,930
Profit attributable to the non-controlling interests	**9,001**	1,085
Profit for the year/period	**166,062**	20,015
Other comprehensive income to owners of the Company	**7,458**	1,403
Other comprehensive income to the non-controlling interests	**427**	161
Other comprehensive income for the year/period	**7,885**	1,564

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

HYY

	Year ended 31 December 2013 HK$'000	Nine months ended 31 December 2012 HK$'000
Total comprehensive income to owners of the Company	**164,519**	20,333
Total comprehensive income to the non-controlling interests	**9,428**	1,246
Total comprehensive income for the year/period	**173,947**	21,579
Dividend paid to non-controlling interests	**–**	–
Net cash (outflow) inflow from operating activities	**(88,712)**	34,207
Net cash outflow from investing activities	**(499,238)**	(156,442)
Net cash inflow from financing activities	**533,222**	152,556
Net cash (outflow) inflow	**(54,728)**	30,321

金恒源

	2013 HK$'000	2012 HK$'000
Non-current assets	**309**	472
Current assets	**105,485**	47,869
Current liabilities	**(69,863)**	(36,642)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**17,595**	5,906
Non-controlling interests	**18,336**	5,793

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

金恒源

	Year ended 31 December 2013 *HK$'000*	Nine months ended 31 December 2012 *HK$'000*
Revenue	**33,865**	1,297
Expenses	**(10,314)**	(2,880)
Profit (loss) for the year/period	**23,553**	(1,575)
Profit (loss) attributable to owners of the Company	**11,362**	(759)
Profit (loss) attributable to the non-controlling interests	**12,191**	(816)
Profit (loss) for the year/period	**23,553**	(1,575)
Other comprehensive income to owners of the Company	**327**	46
Other comprehensive income to the non-controlling interests	**352**	50
Other comprehensive income for the year/period	**679**	96
Total comprehensive income (expense) to owners of the Company	**11,689**	(713)
Total comprehensive income (expense) to the non-controlling interests	**12,543**	(766)
Total comprehensive income (expense) for the year/period	**24,232**	(1,479)
Dividend paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**369**	(1,902)
Net cash (outflow) inflow from investing activities	**(19,067)**	4
Net cash inflow (outflow) from financing activities	**18,692**	(134)
Net cash outflow	**(6)**	(2,032)

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Guangsha

	2013	2012
	HK$'000	*HK$'000*
Non-current assets	**51**	5
Current assets	**21,462**	15,634
Current liabilities	**(17,751)**	(11,984)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**–**	–
Non-controlling interests	**3,762**	3,655

	Year ended 31 December 2013	Nine months ended 31 December 2012
	HK$'000	*HK$'000*
Revenue	**10,227**	5,942
Expenses	**(10,356)**	(5,962)
Profit for the year/period	**–**	–
Profit attributable to owners of the Company	**–**	–
Profit attributable to the non-controlling interests	**–**	–
Profit for the year/period	**–**	–
Other comprehensive income to owners of the Company	**–**	–
Other comprehensive income to the non-controlling interests	**107**	30
Other comprehensive income for the year/period	**107**	30
Total comprehensive income to owners of the Company	**–**	–
Total comprehensive income to the non-controlling interests	**107**	30
Total comprehensive income for the year/period	**107**	30
Dividend paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**180**	(1,095)
Net cash (outflow) inflow from investing activities	**(845)**	324
Net cash inflow from financing activities	**–**	–
Net cash outflow	**(665)**	(771)

50. EVENTS AFTER THE REPORTING PERIOD

(i) On 5 December 2013, the Group has entered into a sale and purchase agreement to acquire the remaining 62.03% of the issued share capital of Ever Source Investment, an associate of the Group, for the cash consideration of RMB49,000,000 (approximately HK$62,759,000). The acquisition was completed on 24 January 2014 and Ever Source Investment became a wholly-owned subsidiary of the Group. Ever Source Investment is principally engaged in business planning, consulting and management services and promotion. Ever Source Investment was acquired to act as investment platform for the future expansion of the Group's operations.

Due to the timing of the transaction, the Group is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The Group is under the processing to analyse all books and records of Ever Source Investment and therefore the initial accounting for the business combination is still incomplete. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, have not been presented. The consideration paid was classified as "Consideration paid for the acquisition of a subsidiary" disclosed in note 30(i) as at 31 December 2013.

(ii) On 14 January 2014, the Group and Rong Chuang entered into the sale and purchase agreement, pursuant to which Rong Chuang has conditionally agreed to acquire, and the Group has conditionally agreed to dispose of the Equity Interest as detailed in note 30(ii). The completion is conditional upon the due diligence results on the JV Company. The total consideration for the Equity Interest is the deposit already placed amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) plus an amount equal to 10.73% per annum on the deposit calculated from the date of the Group's contribution of RMB30,000,000 to the registered capital of the JV Company to the date of the Rong Chuang's payment of the deposit to the Group (the "Premium"), which shall be satisfied in cash and payable in the following manner:

1. the deposit shall be paid in full within five days after the sales and purchase agreement is signed; and

2. the Premium shall be paid upon completion of the transfer of the Equity Interest.

Up to the date of this report, the deposit amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) and the Premium had been fully paid by Rong Chuang.

List of Major Properties Held by the Group

Location	Approximate gross floor area (square meter)	Group's interest	Land use	Term of lease	Stage of completion	Participated completion
Building						
No. 102 Xingshikou Road, Haidian District, Beijing, the PRC	5,628.82	100%	Office and industrial	Medium	Completed	–
Investment property						
Certain portion in No. 3 Experimental Building and ancillary office located at No. 80 Xingshikou Road, Haidian District, the PRC	7,974.22	100%	Industrial	Medium	Completed	–
Investment property under construction and development						
Xianyuwan Village, Xianyuwan Town, Wafangdian City, Dalian, Liaoning Province, the PRC	181,578	100%	Residential and Commercial	Medium	Planning in progress	December 2016