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

TECHNOLOGY AND RESOURCES LINKS

Annual Report 2017

高效電替煤集中供暖機房

農村自採暖地能熱寶系統應用外景

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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

An Yi (Joint Chairman)
Xu Shengheng (Joint Chairman)
Chan Wai Kay Katherine (Deputy Chairman)
Wang Manquan (Chief Executive Officer)
Zang Yiran (Chief Financial Officer)
Dai Qi

Non-executive director

Zhao Youmin

Independent non-executive directors

Jia Wenzeng
Wu Desheng
Wu Qiang
Guo Qingui

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central
Hong Kong

COMPLIANCE OFFICER

Xu Shengheng

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Wu Desheng
Wu Qiang
Guo Qingui

REMUNERATION COMMITTEE

Wu Desheng *(Chairman)*
An Yi *(Deputy Chairman)*
Xu Shengheng *(Deputy Chairman)*
Jia Wenzeng
Wu Qiang
Guo Qingui

NOMINATION COMMITTEE

Xu Shengheng *(Chairman)*
An Yi *(Deputy Chairman)*
Jia Wenzeng
Wu Desheng
Wu Qiang
Guo Qingui

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

SMP Partners (Cayman) Limited
Royal Bank House 3rd Floor
24 Shedden Road, P.O.Box 1586
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
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LEGAL ADVISER

Keith Lam Lau & Chan
5th-7th Floors
The Chinese Club Building
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Hong Kong

AUDITOR

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Central, 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 Ltd. (the "Company"), I would like to report to the shareholders the final results of the Company and its subsidiaries (collectively referred to as "CGSE" or the "Group") for the year ended 31 December 2017 (the "Review Period").

In 2017, the Group ushered in the strategic development opportunities in the new era. The president Xi Jinping presided over the 14th meeting of the Central Financial Leadership Group on 21 December 2016 emphasized that "the promotion of clean heating in winters of North China not only relates to the warm winter for the public in the northern region, but also contributes to substantial reduction of smoggy days. This composes an important chapter of the revolution in energy generation and consumption, and the revolution of living style of rural livelihood. It should further pursue in the principles of dominated by enterprises, promoted by government and affordable by residents, adopt gas if appropriate, adopt electricity if appropriate, use clean energy as much as possible to speed up the proportion of clean heating." The guidelines clarify the three principles of heating and point out that gas and electricity are the means to develop clean energy based on local conditions.

On 29 December 2017, the Chinese government issued the *Circular on Accelerating the Use of Shallow Geothermal Energy to Promote the Reduction of Coal Consumption for Heating in Northern Regions.* The document further clarifies the significance of the application and promotion of shallow geothermal energy, an undertaking that the Group is specialized in, and makes the application of geothermal energy a national strategy.

In the new era, the Group will immediately seize this hard-won historical opportunity, take the renewable shallow geothermal energy as the alternative energy for heating in the northern regions, other renewable energy as the supplement to heating energy, connect with the conventional central heating and self-heating system comprehensively, thus implementing the no-combustion and zero-emission heating with renewable energy in the regions, and realizing efficient replacement of coal with electricity.

Only when the stable energy supply combines with stable heating device for heating in the northern regions, can it guarantee the indoor heating temperature in the buildings; only the no-combustion heating with zero emissions can guarantee the outdoor environment in the regions.

The heat pump products for heating in the northern regions must work together with the transition of the heating energy in the north, and satisfy the needs of different groups of people in the buildings by covering all climatic provinces, like severe cold regions, cold regions, etc. This is also the Group's targets for heat pump product sector of smart manufacturing.

The HYY Ground Energy Heat Pump Environmental System, the system distribution and operational costs for central heating carried out by the Group account for only a quarter of the electric boiler and electrical storage products, so it does not require adding additional power distribution for the buildings.

The system distribution of the HYY Ground Source Heating Device for heating accounts for only a quarter of that for electric boiler and electrical storage products, with the operational costs accounting for its one-sixth.

In 2018, the Group will continue to link up with well-developed business models, strengthen BOT business, heating operation and heating equipment leasing business, so as to guarantee the heating with affordable costs for the residents through connection with the government and implementation of the enterprise. In this case, we can upgrade the conventional combustion heating industry completely to an emerging industry dominated by geothermal energy integrating heating and cooling, and walk a new way to building smart heating and haze treatment and control in an no-combustion and zero-emission manner, and usher in the transition of heating energy in the northern regions.

I would like to take this opportunity to thank all the staff and directors for their contributions and efforts extended to the Group's development over the past year and sincerely thank all customers, business partners and shareholders for their trust and support to the Group.

With best regards,

Xu Shengheng
Joint Chairman of the Board

FINANCIAL REVIEW

For the year ended 31 December 2017, the profit for the year of the Group amounted to approximately HK$3,962,000 and revenue amounted to HK$778,153,000 as compared with the loss of the Group amounted to HK$31,629,000 and revenue amounted to approximately HK$619,053,000 for the year ended 31 December 2016.

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 2017 and 2016.

Revenue	2017		2016	
	HK$000	**%**	*HK$000*	%
1. Shallow geothermal energy utilisation system				
Including: Planning and design	**4,453**	**1**	5,479	1
Geothermal energy collection	**73,886**	**9**	34,217	6
System engineering	**648,608**	**83**	339,249	54
Operation and maintenance management	**13,523**	**2**	49,468	8
2. Air conditioning heat pump	**23,906**	**3**	172,518	28
3. Properties investment and development	**13,777**	**2**	18,122	3
Total revenue	**778,153**	**100**	619,053	100

OPERATIONAL RESULTS

Total revenue from operations for the year ended 31 December 2017 was approximately HK$778,153,000 as compared with HK$619,053,000 for the year ended 31 December 2016. The revenue of the shallow geothermal energy utilisation system increased during the year due to the fact that the Group had put great efforts to promote renewable shallow geothermal energy heating, especially in northern China. The Group secured projects in Beijing, Hebei, Liaoning, Shanxi, Guizhou and other regions. Especially for coal-to-electricity projects in Beijing, a single contract amounted to RMB320 million was secured. Therefore, revenue has increased during this year.

During the year ended 31 December 2017, the Group recorded a net profit of approximately HK$3,962,000 compared with a net loss of approximately HK$31,629,000 for the year ended 31 December 2016.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2017 was approximately HK$163,909,000, represented the gross profit margin of 21.06% (2016: approximately HK$110,599,000 represented the gross profit margin of 17.87%). The increase in gross profit margin of the Group was mainly due to the fact that the Group's gross profit during the year under review had been back to normal, while the Group built certain demonstration projects with lower gross profit margin for the new development areas during the year 2016. In the meantime, the trading of air conditioning heat pump products is a competitive business in the mainland China, and the relevant gross profit margin was low. The trading of air conditioning heat pump products attributed to a great portion to the total sales in 2016, it also dragged down the gross profit margin during the year 2016. As stated above, the gross profit was higher as compared with that of last year.

Management Discussion and Analysis

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year decreased by approximately HK$7,774,000, or 25.02% as compared with that of the year ended 31 December 2016. The selling and distribution expenses decreased was mainly due to the fact that the promotional and marketing activities of the relevant projects of the Group decreased during the year. The projects implemented by the Group were the results of business promoted in the previous year. There was no significant increase in number of staff and expenses during the year. As a result, the relevant sales and distribution expenses as a whole decreased during the year.

Administrative expenses amounted to approximately HK$115,669,000 (decreased by 5.35%) and HK$122,208,000 for the years ended 31 December 2017 and 2016 respectively. The administrative expenses was maintained at similar level as compared with last financial reporting year.

During the year ended 31 December 2017, the Group incurred share-based payment expenses of approximately HK$9,546,000 (2016: approximately HK$5,309,000) which was due to the fact that the Group granted share options to directors, officers, employees and business partners which lead to the related expenses.

ORDER BOOK

As at 31 December 2017, the Group had contracts on hand of approximately HK$439,685,000 (2016: approximately HK$572,484,000).

SEGMENTAL INFORMATION

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

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating supply chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning heat pump

The Group continued its air conditioning heat pump business this year and has expanded nearly 2,000 devices in the district of Shunyi and Huairou in Beijing. In the future, the Group will continue to develop such products and enrich the product line constantly to meet the individual needs of the customers.

Properties investment and development

The Group has expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow geothermal energy as alternative energy for heating/cooling supply. The investment properties and the properties held for sale 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 geothermal energy as alternative green energy.

Securities investment and trading

The Group invested the idle fund for trading of securities and other types of investments in order to increase the Group's income.

Further information regarding the Group's operating segments may be referred to note 4 to the financial statements of this report.

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2017 was approximately HK$288,559,000 (2016: approximately HK$307,800,000). The Group obtained a specific loan facility of approximately RMB179,500,000 (equivalent to approximately HK$215,529,000) from Beijing Bank's coal-to-electricity specific borrowings during the year 2017. The loan bears interest at approximately 6% per annum and is repayable in August 2018 according to the loan agreement. As at 31 December 2017, the Group has repaid RMB 104,800,000 (equivalent to approximately HK$125,836,000).

In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$480,286,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement.

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$122,004,000 (2016: approximately HK$73,931,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2017, no assets of the Group have been charged (2016: 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 most of the bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 31 December 2017, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total net debt (including interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 37% as at 31 December 2017 (2016: 35%). The gearing ratio was increased due to the fact that the Group obtained "coal-to-electricity" specific borrowing from Beijing Bank.

EMPLOYEES

As at 31 December 2017, the Group has approximately 660 employees (2016: approximately 650). 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.

Management Discussion and Analysis

SHARE OPTION SCHEME

The Company has a share option scheme that provides for the issuance of options to its directors, officers and employees. The detailed disclosures relating to the Company's share option scheme are set out in note 35 to the financial statements of this report.

At 31 December 2017, the number of shares options had been granted and remained outstanding under the Share Option Scheme 2010 was 486,182,851 (adjusted as a result of the completion of rights issue on 18 July 2017), representing approximately 12.07% of the shares of the Company in issue at that date (2016: 433,020,000, representing approximately 15.05% of the shares of the Company in issue at 31 December 2016).

CONTINGENT LIABILITIES

As at 31 December 2017, 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 does not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: Nil).

CAPITAL STRUCTURE

As at 31 December 2017, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,026,925,163 ordinary shares of US$0.01 each.

A rights issue of two rights shares for every five existing shares held by members on the register of members was completed on 18 July 2017, at an issue price of HK$0.10 per rights share, resulting in the issue of 1,150,550, 000 shares for a total cash consideration, before expenses, of HK$115,055,000.Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 34 to the financial statements of this report.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitments are set out in note 42 to the financial statements of this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

The Group expects that it will make significant capital expenditures on some of the build-operate-transfer ("BOT") business and property investments. BOT business is currently the most common heating business model in the PRC. The Group will promote this model in order to develop heating projects.

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisitions and disposal transactions are set out in note 37 to the financial statement of this report.

BUSINESS REVIEW

The Group has been devoted to research, development and promotion of geothermal energy as the substitute energy in providing heating for buildings and focusing in the commercialization of its original technology to realize the intelligent heating (cooling) for buildings free of combustion so as to enhance the development of the emerging industry of integrated heating and cooling with geothermal energy.

Currently, the Group has developed three primary product systems, namely HYY Ground Energy Heat Pump Environmental System corresponding to the traditional heating, Distributed Ground Energy Station for Heating and Cooling corresponding to the central heating for city and HYY Ground Source Heating Device corresponding to the individual heating for rural households which cover different geological conditions, climate conditions, utility conditions, and building types, providing intelligent heating products with no combustion to different customers, making HYY a service provider of multicomponent system solutions.

With diversified products suitable for different environments, the Company is moving ahead constantly in heating industry, which has aroused the high interests of the governments at all levels and users gradually. In addition, President Xi Jiping emphasized to promote the clean heating in winter in northern regions when he presided over the 14th meeting of the Central Leading Group for Financial and Economic Affairs, and the governments at different levels should continue to devote greater efforts to implement the great course of "transiting from coal to clean energy" in 2017. The Group has improved and optimized the system design, product configuration and effectiveness, product security assurance, construction quality and others through active deployment. Different heating product series won the bids in different national key places implementing the policy of transiting from coal to clean energy, and for the coal-free (central heating with ground source heat pump) project obtained in Beijing in 2017, HYY signed contract with relevant enterprises to undertake the heating source of the thermodynamic system, with the contract sum of approximately RMB320 million. The Company also obtained some contracts on renovation projects in Beijing, Tianjin and Hebei for HYY Ground Source Heating Device (room heating), and the air-source heat pump (household heating) also won the bids for the heating system procurement and installation projects in rural villages of Huairou District, Shunyi District and Chaoyang District in Beijing, therefore, the overall income of the Group was improved steadily in 2017. Meanwhile, the Company has made great efforts to cooperate with the government to carry out efficient replacement of coal for construction of the central heating and self-heating infrastructure in cities and towns, and made the renewable shallow geothermal energy as the alternative energy for heating in the northern regions.

Management Discussion and Analysis

The HYY Ground Source Heating Device that self-developed by the Group inherits the thrifty tradition in China. It is characterized by source control, key guarantee, independent metering, and saving efficiency attributed to the doer. Under the premise of guaranteeing the total heat supply, the system can be simply copied and easily operated, is good for differentiated use guided by conservation behavior and greatly satisfied the rural household needs. HYY Ground Source Heating Device consists of four modules: geothermal energy collection, geothermal energy transmission, geothermal energy enhancement, and electrical control. In the geothermal energy collection module, the collection method is determined according to the energy demand of the building; the geothermal energy enhancement module uses the mature heat pump technology to enhance low-grade shallow geothermal energy to the desired high-grade one to heat the building through the terminal unit. Because no fossil fuel or combustion is involved during the energy collection, transmission, enhancement and release processes, electricity equivalent to only one-fourth of the total load is consumed. In addition, the unit can be started or stopped automatically according to the set temperature in the system during operation. The system can have COP of 4 or more. It has the following advantages. The first one is environmental advantage. An important cause for the generation of haze is the low-altitude emissions from large-scale and extensive burning in order to heat buildings, and such emissions contain harmful gases, dust and enormous heat and will become haze under suitable climatic conditions. The HYY Ground Source Heating Device gives off no emissions during the whole process and causes zero pollution to the application area. It contributes to the economic development and improvement of people's living quality while solving the ecological problems by eliminating the conditions for haze production from the source and pursuing harmonious coexistence of human and nature. The second one is technical advantage. The core of HYY Ground Source Heating Device that heats without combustion is the geothermal energy collection technologies of single-well circulation heat exchange and buried pipe. HYY owns all the own intellectual property rights to them. It has the industrialization feature of being highly adaptable to collect shallow geothermal energy (heat) with comparable costs under various geological conditions without pollution, water loss, or potential geological disasters. The third advantage is in the cost. The initial investment to apply the HYY Ground Source Heating Device of no-combustion for one room in size of 30m^2 or below is RMB8,000 or below, the electricity consumption is below 800 degree. It can heat and cool the buildings and guarantee the quality of turnkey project. HYY Ground Source Heating Device of no-combustion uses geothermal energy as alternative energy, with operating power consumption equivalent to 25% of that of traditional electric boiler, heating operating cost is equivalent to 17%; when applied for cooling, it saves 15%-20% of the energy consumption needed by the traditional central air-conditioning. The fourth advantage is safe operation. Compared with traditional heating methods that often require fire and explosion protection due to the burning of coal, oil and gas, the combustion-free integrated heating and cooling with geothermal energy only requires the safety of electricity use and is easy to operate, safe and reliable. The fifth advantage is standardization. The HYY Ground Source Heating Device has certain standard for reference to be fully market-oriented. A local standard titled the Technical Code on Geothermal Energy Collection Wells for Single-well Circulation Heat Exchange (DB11/T 935-2012) became effective on 1 April 2013, marking the industrialization of this original technology.

During the review period, we provided 35 service areas and toll stations located in different regions of Liaoning Expressway with shallow geothermal energy heating renovation services, and this was the first time for us to provide shallow geothermal energy heating application for major highway project. In addition, as our patented system has met the requirements of heating systems and buildings of Shanxi Yuncheng Nursing Vocational College (山西運城護理職業學院) which also satisfied with the government single source procurement requirements, the vocational college and HYY signed a contract for the investment in construction of intelligent combustion-free heating/cooling system with single well geothermal energy circulation and 10 years project operations services.

During the review period, Ever Source Investment Co., Ltd, a wholly-owned subsidiary of the Company participated in the establishment of Beijing Life Insurance Co., Limited ("Beijing Life Insurance") as one of the promoters, with a contribution to Beijing Life Insurance of RMB142.99 million, accounting for 4.9997% of its share. In the same year, Beijing Life Insurance obtained the Approval on Commencement of Business of Beijing Life Insurance Co., Ltd." issued by China Insurance Regulatory Commission ("CIRC"). The headquarters of Beijing Life Insurance have designed and selected HYY Ground Energy Heat Pump Environmental System as its heating, cooling and hot water supply system in the headquarters buildings.

During the review period, Ever Source Science and Technology Development Group Co., Ltd. has undergone rigorous review to pass the certification of many international standard systems including ISO9001, ISO14001 and OHSAS18001.

During the review period, the Company collaborated with a well-known software provider in developing a service platform named "Energy Cloud", which serves as a unified data platform for sales, design, budgeting, procurement, construction, operation and maintenance of the Company. It finally realizes automated, intelligent and integrated information management in the Group's projects.

OPERATIONAL CHALLENGES AND RISKS

(i) The shallow geothermal energy serves as the alternative energy of heating, and the premise to ensure heating is to have proper design and construction quality assurance;

(ii) The combination of stable energy supply and stable equipment can guarantee the indoor temperature, and the no-combustion and zero-emission can guarantee the outdoor environment in the regions;

(iii) The heating is a life long guarantee for customers, and the core of the customer services is to the guarantee the heating operations.

BUSINESS OUTLOOK

The speech made by President Xi for heating in the northern regions: "Dominated by enterprises, promoted by government and affordable by residents", which makes clear of the heating principle." "Adopt gas if appropriate, adopt electricity if appropriate", which points out the way to develop the clean energy by acting according to local conditions. The speech made by President Xi for heating in the northern regions promoted the transition of heating energy of the new era in northern regions (from burning the primary energy to regional renewable combustion free heating), the Group would prioritize the heat pump products for the northern regions on the basis of renewable shallow geothermal energy supply, promote the industrial development of integrated heating/cooling with geothermal energy, and manage and control the haze.

In the future, the Group would adhere to the market-oriented principle, meet the customers' demands as the target, take the consultation service as the guidance, the technology integration as the basis and product manufacturing as the foundation and the application of demonstration project as the support, and continue to carry out and improve the technology and service capacity comprehensively, focus on the scientific research and development of the shallow geothermal energy as the alternative energy for heating as well as industrial development of the original technology, and put efforts to make the Company an optimal solution provider for smart heating/cooling system.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. An Yi, aged 49, the joint chairman of the Board and executive Director of the Company. Mr. An graduated from Central University of Finance and Economics with a degree of infrastructure finance and credit in 1991. He is a doctoral candidate and senior researcher economist. He holds an Executive Master of Business Administration from University of Texas at Arlington. Since July 1991, he worked as an officer in Ministry of Aviation and Aerospace Industry, the deputy director of the Board of China Aviation Industry Corporation (China National Space Administration) and the director of China Aerospace Science & Industry Corporation. Since 2004, he served, in chronological order, Aerospace Science & Technology Finance Company Limited as the standing deputy general manager (director) and the general manager (director), as a full-time member of China Aerospace Science & Industry Corporation Supervision Committee and vice chairman of Aerospace Securities Company Limited. He joined China Energy Conservation Investments Company Limited in July 2008 as a general manager assistant and the head of financial department. He worked as a general manager assistant and the head of financial management department in China Energy Conservation and Environmental Protection Group since April 2010. Currently, he is the deputy general manager of China Energy Conservation and Environmental Protection Group, the parent company of substantial shareholder of the Company, and the chairman of Sino-British Low Carbon Venture Capital Limited.

Mr. Xu Shengheng ("Mr. Xu"), aged 55, the joint chairman of the Board 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 and is now studying a on-job doctoral degree of Geological Engineering in China University of Geosciences. Mr. Xu has long been engaged in the field of heating provision. Prior to year 2000, he mainly engaged in the combustion-based heating. Since year 2000, he is committed to non-combustion heating. The original single-well circulation heat exchange of renewable geothermal energy collection technology developed by Mr. Xu has realized the industrialization development and is the core technology of the integrated heating/cooling emerging industry of the Group. Mr. Xu is also a director of most of the subsidiaries of the Company.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 58, 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 previously held various key positions in listed companies. Ms. Chan has profound practicing knowledge in company's strategic planning and corporate management of listed companies. Ms. Chan is also a director of certain subsidiaries of the Company.

Mr. Wang Manquan ("Mr. Wang"), aged 55, the chief executive officer and executive Director of the Company, Senior Engineer, graduated from Beijing Municipal Committee of the CPC Party School with a bachelor's degree in Business Management in 2007. He joined in Ever Source Science and Technology Development Group Co., Limited, a subsidiary of the Company, in 2001. Previously, Mr. Wang was the vice president of Ever Source Science and Technology Development Group Co., Ltd. and currently serves as the chief executive officer of the company and general manager of Ever Source Science and Technology Development Group Co., Ltd. Prior to joining in the Group, Mr. Wang served as the head of Beijing Haidian Sijiqing Heat Exchanger Factory. Mr. Wang has been engaged in leadership of project management for mechanical and electrical equipment installation for more than 15 years, and specializes in comprehensive application technology of geothermal energy heating system. He has extensive business management experience. Mr. Wang is also a director of certain subsidiaries of the Company.

Mr. Zang Yiran ("Mr. Zang"), aged 39, 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 China Energy Conservation Investment Corporation ("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 ("**CECEP (HK)**")., a substantial shareholder of the Company. Mr. Zang is also a director of certain subsidiaries of the Company.

Mr. Dai Qi, aged 35, an 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 CECIC and Strategic Management Department of China Energy Conservation and Environmental Protection Group. Besides, he acted as deputy general manager of Investment and Capital Operation Department of CECEP (HK). He has been acting as Administrative Director of the Company since September 2012. Mr. Dai is also currently the vice president of the Group and vice president of Ever Source Science and Technology Development Group Co., Ltd.

NON-EXECUTIVE DIRECTOR

Mr. Zhao Youmin ("Mr. Zhao"), aged 46, 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 CECIC, 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 and the chairman of its associate company, CECEP Environmental Consulting Group Co., Ltd..

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jia Wenzeng ("Mr. Jia"), aged 74, 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 78, an independent non-executive Director of the Company, is the executive director of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, honorary director of the Civil Engineering & Architectural Society of Beijing, 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 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 Beijing Institute of Architectural Design. Mr. Wu has obtained a number of awards, including the silver medal of the National Design Award and the National Labour Medal.

Mr. Wu Qiang ("Mr. Wu"), aged 58, an independent non-executive Director of the Company, graduated from China University of Geosciences, Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology, Beijing and a member of China Academy of Engineering. Mr. Wu was honored with the "Li Siguang Geological Science Award" and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first "Outstanding Postdoctoral Award of China", "National Outstanding Teacher" and the State-selected candidate of the first project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is the deputy chairman of International Mine Water Association (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and the Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology, a member of Commission of Technology under State Administration of Work Safety and the head of "Expert Panel On Hydrogeology" under the State Administration of Coal Mine Safety.

Biography of Directors and Senior Management

Mr. Wu has published many books and over 300 academic articles. His works were honored with three Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 50 invention patens were granted by the United States, Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the "Team of Safety in Mines" of China Association for Science and Technology.

Mr. Guo Qingui ("Mr. Guo"), aged 45, an independent non-executive Director of the Company, graduated from the School of Law of Zhengzhou University. Mr. Guo obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China, he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing) and King & Wood Mallesons. He currently serves as a managing partner and a lawyer of Zhongxin Law Firm in Beijing.

SENIOR MANAGEMENT

Mr. He Yongping ("Mr. He"), aged 42, is an executive vice president of the Company, executive vice president and general manager of Shallow Geothermal Promotion Center of Ever Source Science and Technology Development Group Co., Limited and engineer of the Company. In 1999, he graduated from Harbin University of Civil Engineering and Architecture with a bachelor's degree in heating ventilation and air conditioning engineering. In 2002, he joined Ever Source Science and Technology Development Group Co., Limited, a subsidiary of the Company. From 2002 to 2004, he worked as a designer and served as the deputy chief engineer of the Group from 2005 to 2008. From 2009 till now, he is the executive vice president of the Group. Mr. He has been engaged in the research, design and promotion of geothermal intelligent heating systems for more than 15 years. He specializes in the application and promotion of geothermal heating systems, and has extensive business experience in providing geothermal intelligent integrated solutions for customers.

Mr. Guan Xiuhu ("Mr. Guan"), aged 55, is an executive vice president of the Company, executive vice president and general manager of Regional Development Department of Ever Source Science and Technology Development Group Co., Limited. Mr. Guan is a professor-level senior engineer. In 1983, he graduated from Beijing University of Science and Technology with a bachelor's degree in metal physics. In 2013, he joined the Company and its subsidiary Ever Source Science and Technology Development Group Co., Limited. Prior to joining the Group, Mr. Guan served as the director of the Beijing Institute of Powder Metallurgy, Director of the National Powder Metallurgy Quality Supervision and Inspection Center, Executive Deputy General Manager of Beijing Nuosi Taige Precision Technology Co., Ltd., and Deputy General Manager of Beijing Huaqing Group. Mr. Guan has long been engaged in the development and application of electromechanical equipment and geothermal energy. He specializes in the comprehensive application technology of geothermal energy heating systems and has extensive business management experience.

Mr. Jing Fuzhi ("Mr. Jing"), aged 60, is an executive vice president and chief investment officer of the Company and Ever Source Science and Technology Development Group Co., Limited. Mr. Jing holds a master's degree in EMBA from Hong Kong University of Science and Technology. He joined the Company in 2014. Prior to joining, Mr. Jing served as Deputy Director of Planning and Investment Division of Beijing Economic Commission; Deputy General Manager of Beijing Industrial Investment Corporation; Director of Small and Medium Enterprises Division of Beijing Economic and Information Technology Committee; Mr. Jing has been engaged in investment work for 35 years and has participated in Beijing Hyundai Motor , SMIC, BOE and other major project investment and the establishment and management of the SME Pilot Fund in Beijing. He has extensive investment management experience.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the year ended 31 December 2017 by business segments are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the the Group's financial position at that date are set out in the consolidated financial statements on pages 40 to 130.

The directors do not recommend the payment of any dividend for the year ended 31 December 2017.

RIGHTS ISSUE

The Company announced on 12 April 2017 to put forward a proposal, to raise approximately HK$115,100,000, before expenses, by issuing 1,150,550,046 Shares (the "Rights Share(s)") at a price of HK$0.10 per Rights Share on the basis of two Rights Shares for every five existing Shares held by Qualifying Shareholders (as defined in the announcement of the Company dated 12 April 2017) (the "Rights Issue").

The Rights Issue was approved by the Independent Shareholders (as defined in the announcement of the Company dated 12 April 2017) at the extraordinary general meeting held on 13 June 2017.

On 18 July 2017, the Company completed the Rights Issue by allotting and issuing 1,150,550,046 Rights Shares at the rights issue price of HK$0.10 per Rights Share. As at 31 December 2017, the total number of the issued ordinary shares was 4,026,925,163 Shares. For more details of the Rights Issue, please refer to the prospectus of the Company dated 26 June 2017 (the "Rights Issue Prospectus") and the announcement of the Company dated 17 July 2017 in relation to the results of the Rights Issue.

USE OF PROCEEDS FROM THE RIGHTS ISSUE

The Group completed the Rights Issue and obtained net proceeds, after expenses, of approximately HK$112,000,000. As disclosed in the Rights Issue Prospectus, approximately 40%-50% of the net proceeds will be used on the payment of operational expenses and approximately 50%-60% of the net proceeds will be used on project-based related expenses. Up to 31 December 2017, approximately HK$15,000,000 was utilized for payment of general operational expenses and approximately HK$34,286,000 was utilized for project-based related expenses. The remaining balance was kept in the Company's bank account. The Directors intend to utilize such proceeds as stated in the Rights Issue Prospectus.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2017 and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 5 to 11. An analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators is provided in the "Five-Year Financial Summary" set out on page 131 of this annual report. In addition, the financial risk management objectives and policies of the Group can be referred in note 46 to the financial statements.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings were revalued as at 31 December 2017. The revaluation resulted in a gain over book values amounting to approximately HK$14,912,000, which has been credited directly to the assets revaluation reserve.

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the 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$25,900,000. Most of these investment properties will be developed as the Group's self-built demonstration leasing project with the application of shallow geothermal energy.

PROPERTIES

Details of the major properties held by the Group as at 31 December 2017 are set out on page 132 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

As at 31 December 2017, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,026,925,163 ordinary shares of US$0.01 each.

Details of movements in the Company's share capital and share option during the year, together with the reasons therefore, are set out in notes 34 and 35 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CHARITY DONATIONS

During the year, the Group did not make any charity donations.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 48 to the 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 2017, the Company's reserve available for distribution amounted to approximately HK$818,971,000 (2016: HK$815,816,000) after net off the accumulated losses of the Company.

ENVIRONMENTAL POLICY

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. The Group encourages environmental protection and promotes awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and reducing so as to minimize the environmental impact from our operation. Besides, being a corporation engaging in the business of research, development and promotion of shallow geothermal energy as alternative energy to provide heating for buildings, we have installed our Ground Energy Heat Pump Environmental System and/or Ground Energy Heating Devices in most of our offices in China for providing heating and cooling which has achieved great saving in electricity and thereby reducing pollution to the environment.

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses and enhance environmental sustainability.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been setting up system and allocating resources to ensure ongoing compliance with rules and regulations. Save as disclosed below, the Group has complied, to the best of our knowledge, with the Securities and Futures Ordinance (the "SFO"), the GEM Listing Rules, the applicable employment ordinance both in China and Hong Kong, the local standards and regulations for our project works as well as other relevant rules and regulations during the year.

The Company has the non-compliance with Rule 19.34 of the GEM Listing Rules in respect of the Company's entry into the promoters agreement for establishment of Beijing Life Insurance Co., Ltd., in 2016 which constituted a discloseable transaction of the Company, has been delayed to report by announcement. Details of this discloseable transaction can be referred to the Company's announcement dated 5 September 2017.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Human resources are one of the greatest assets of the Group. The Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, career development opportunities, training, occupational health and safety. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found during the year.

The Group values views and opinions of all customers and collects them through various means and channels including making regular visits/phone calls/holding meetings. A specific service hotline is set up to timely deal with customers' enquiries and complaints so as to understand the customer needs and regularly analyze on customers' feedback. The Group also conducts comprehensive tests and checks to ensure quality products and services are offered to the customers.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The Group has set up a qualified suppliers database registering the suppliers which are met certain performance criteria and eligibility requirements to facilitate the procurement process. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 60% (2016: 42%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 41% (2016: 22%). Purchases from the Group's five largest suppliers accounted for approximately 47% (2016: 62%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 23% (2016: 34%).

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. An Yi *(Joint Chairman) (Appointed on 30 March 2017)*
Mr. Liu Dajun *(Joint Chairman) (Resigned on 30 March 2017)*
Mr. Xu Shengheng *(Joint Chairman)*
Ms. Chan Wai Kay Katherine *(Deputy Chairman)*
Mr. Wang Manquan *(Chief executive Officer)*
Mr. Zang Yiran *(Chief Financial Officer)*
Mr. Dai Qi

Non-executive director:
Mr. Zhao Youmin

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Wu Qiang
Mr. Guo Qingui

Note: In accordance with article 85 of the Company's articles of association, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Zang Yiran and Mr. Jia Wenzeng will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with code provision A.4.3 of the Code, Mr. Jia Wenzeng has served as an independent non-executive Director of the Company for more than 9 years. His further appointment is subject to a separate resolution to be approved by Shareholders at the AGM.

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

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Company are set out on pages 12 to 14 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

On 12 April 2017, Mr. Xu Shengheng ("Mr. Xu), the joint chairman of the Board and an executive Director, Ms. Chan Wai Kay, Katherine, the deputy chairman of the Board and an executive Director, both of them being the underwriters, and the other underwriters signed an underwriting agreement with the Company to jointly underwrite not less than 586,257,646 Rights Shares and not more than 730,425,646 Rights Shares ("Underwritten Shares") subject to the terms and conditions of the underwriting agreement. As the Rights Issue recorded over-subscription by excess application. Pursuant to the terms of the underwriting agreement, the obligations of the Underwriters under the underwriting agreement have been fully discharged and the Underwriters are not required to take up any Underwritten Shares.

On 12 April 2017, each of Mr. Xu and his spouse, and Ms. Chan and her spouse, has signed irrevocable undertaking in favour of the Company to subscribe for 203,608,400 Rights Shares and 20,684,400 Rights Shares provisionally allotted to them respectively under the Rights Issue. Such Rights Shares were issued and allotted to Mr. Xu and his spouse and Ms. Chan and her spouse on 18 July 2017 accordingly.

Details of the Rights Issue can be referred to the Company's announcement dated 12 April 2017 and 17 July 2017, the circular dated 19 May 2017 and the Rights Issue Prospectus dated 26 June 2017.

Save as disclosed above and in notes 8 and 43 to the 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.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the Year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors for the year ended 31 December 2017 is set out below:

– Mr. An Yi was appointed as the joint chairman of the Board and the executive Director of the Company with effect from 30 March 2017.
– Mr. Liu Dajun resigned as the joint chairman of the Board and the executive Director of the Company with effect from 30 March 2017.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules for the year ended 31 December 2017.

Report of the Directors

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 2017, 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
Mr. Xu Shengheng *(Note 1)*	Beneficial owner	711,646,600 (L)	17.67%	37,725,148 (L)	750,354,548 (L)	18.63%
	Interest of spouse	982,800 (L)	0.02%	–		
Ms. Chan Wai Kay Katherine *(Note 2)*	Beneficial owner	58,290,400 (L)	1.45%	43,788,119 (L)		
	Interest of spouse	14,103,600 (L)	0.35%	–	116,182,119 (L)	2.89%
Mr. Wang Manquan *(Note 3)*	Beneficial owner	716,800 (L)	0.02%	30,314,851 (L)	31,031,651 (L)	0.77%
Mr. Jia Wenzeng *(Note 4)*	Beneficial owner	–	–	4,827,920 (L)	4,827,920 (L)	0.12%
Mr. Wu Dehsheng *(Note 5)*	Beneficial owner	–	–	3,143,762 (L)	3,143,762 (L)	0.08%

(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. Mr. Xu Shengheng ("Mr. Xu") is interested in 711,646,600 Shares and 37,725,148 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 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk is interested.

2. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 58,290,400 shares and 43,788,119 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. Mr. Chow Ming Joe Raymond ("Mr. Chow"), spouse of Ms. Chan, holds 14,103,600 Shares of the Company ("Shares"). Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow is interested.

3. Mr. Wang Manquan is interested 716,800 Shares and 30,314,851 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. Jia Wenzeng is interested in 4,827,920 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.

5. Mr. Wu Desheng is interested in 3,143,762 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 Scheme

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Scheme") for a period of ten years from the date on which the Share Option Scheme became unconditional. On 7 August 2010, the Share Option Scheme became unconditional and effective. Pursuant to the Share Option Scheme, 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 Scheme, to subscribe for shares in the Company under the terms of the Share Option Scheme. As at 31 December 2017, the following directors of the Company were interested in the following options under the Share Option Scheme:

Name of director	Date of grant	Exercise period	Immediately before adjustment		Immediately after adjustment and as at 31 December 2017*	
			Exercise price per share HK$	Number of share options outstanding	Exercise price per share HK$	Number of share options outstanding
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000	0.379	13,024,158
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000	0.379	19,087,129
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990

Report of the Directors

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)*

The Share Option Scheme *(Continued)*

Name of director	Date of grant	Exercise period	Immediately before adjustment		Immediately after adjustment and as at 31 December 2017*	
			Exercise price per share HK$	Number of share options outstanding	Exercise price per share HK$	Number of share options outstanding
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667	0.379	1,871,288
		9 September 2012 to 8 September 2020	0.426	1,666,667	0.379	1,871,288
		9 September 2013 to 8 September 2020	0.426	1,666,666	0.379	1,871,285
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000	0.379	1,684,158
	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000	0.267	3,143,762

* *The number of outstanding share options and the exercise price of share options per share were adjusted as a result of completion of rights issue on 18 July 2017.*

Save as disclosed above, as at 31 December 2017, 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 35 to the financial statements in respect of the share option scheme, 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 SCHEME

The detailed disclosures relating to the Company's share option scheme are set out in note 35 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into by the Group, or existed during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 December 2017, 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	1,190,000,000 (L)	29.55%	–	1,190,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group *(Note 1)*	Interest of controlled corporation	1,190,000,000 (L)	29.55%	–	1,190,000,000 (L)	29.55%
Ms. Luk Hoi Man *(Note 2)*	Beneficial owner	982,800 (L)	0.02%	–		
	Interest of spouse	711,646,600 (L)	17.67%	37,725,148 (L)	750,354,548 (L)	18.63%

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

Notes:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP"), therefore, under the SFO, CECEP is deemed to be interested in 1,190,000,000 Shares.

2. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 982,800 Shares. Mr. Xu is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 711,646,600 Shares and 37,725,148 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 2017, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

Report of the Directors

CONNECTED TRANSACTIONS

Continuing Connected Transactions not exempt from Independent Shareholders' Approval Requirements

The continuing connected transactions 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 are set out below:

(1) *Financial services agreement*

On 24 March 2016, the Company entered into the financial services agreement with China Energy Finance Company Limited (中節能財務有限公司), ("Finance Company"), a wholly owned subsidiary of China Energy Conservation and Environmental Protection Group Company ("CECEP"), a deemed substantial shareholder of the Company, whereby Finance Company agreed to provide the deposit services, the settlement services, the loan and guarantee services and the other financial services to the member(s) of the Group. The term of the financial services agreement is from the date of the Independent Shareholders' approval of the financial services agreement to 31 December 2018.

The above continuing connected transaction in relation to the financial services agreement was approved by the independent shareholders of the Company at the annual general meeting of the Company held on 30 May 2016.

The annual caps for the Loan and Guarantee Services to be provided by Finance Company to the Group and the maximum daily deposit amount with Finance Company for the period from 1 January 2017 to 31 December 2017 (the "Relevant Period") were RMB1,070,000,000 and RMB250,000,000 respectively. The actual maximum amount of Loan and Guarantee Services for the Relevant Period was zero and the actual daily balance recorded for the Deposit Services for the Relevant Period was approximately RMB5,000.

(2) *Sale and purchase framework agreement*

On 4 May 2016, the Company entered into the sale and purchase framework agreement with China Energy Conservation and Environmental Protection Group ("CECEP"), a deemed substantial shareholder of the Company, whereby CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to supply of the products and provision of services. The term of the sale and purchase framework agreement is from the date of the Independent Shareholders' approval of the sale and purchase framework agreement to 31 December 2018.

The above continuing connected transaction in relation to the sale and purchase framework agreement was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 26 September 2016.

The annual caps for the supply of the Products and provision of Services by the Company and its subsidiaries under the Sale and Purchase Framework Agreement for the period from 1 January 2017 to 31 December 2017 (the "Period") was RMB80,000,000. The actual amount recorded for the supply of the Products and provision of Services by the Company and its subsidiaries to CECEP and its subsidiaries for the Period was approximately RMB925,000.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued an unqualified letter containing their findings and conclusions accordingly. The letter stated that (i) the above continuing connected transactions have been approved by the Board; (ii) the transactions involving the provision of goods or services by the Group were, in all material respects, in accordance with the pricing policies of the Group; (iii) the transactions were entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) the above continuing connected transactions did not exceed their respective annual caps as set out in the Company's respective circulars dated 13 May 2016 and 30 August 2016.

The independent non-executive Directors have confirmed the above continuing connected transactions in accordance with Rule 20.53 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 better, and in accordance with the terms of the relevant agreements governing such transactions that are fair and reasonable and in the interests of the shareholders as a whole.

Exempted Connected Transactions

(1) A loan agreement dated 13 September 2016 entered into between the Zhong Jie Neng Hua Yu Fund Management Company Limited (中節能華禹基金管理有限公司) (the "Fund Company"), a wholly owned subsidiary of CECEP, as lender, Huishang Bank Hefei Sui Qi Road branch (徽商銀行合肥濉溪路支行) ("Huishang Bank") as the lending agent of the Fund Company, and Ever Source Science and Technology Development Group Co., Ltd. (恒有源科技發展集團有限公司) ("HYY") (an indirect wholly owned subsidiary of the Company), as borrower for the granting of the 3-year term loan of RMB400 million (the "Loan"). The Loan constituted a connected transaction but is fully exempt under Rule 20.88 of the GEM Listing Rules.

On 15 September 2016, CECEP and HYY entered into the guarantee service agreement, pursuant to which, CECEP agreed to provide guarantee for the Loan granted to HYY by the Fund Company (through Huishang Bank as its lending agent) and HYY agreed to pay to CECEP the guarantee fee at the rate of 2% per annum on the amount of the Loan. The guarantee service agreement constituted a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. During the year ended 31 December 2017, the guarantee fee amounted to HK$11,203,000 was recognised in the statement of profit or loss covering the period from 15 September 2016 to 31 December 2017. As the applicable percentage ratios of the guarantee fee payable by HYY to CECEP for the guarantee service under the guarantee service agreement is less than 5%, the guarantee service is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules.

(2) A lease agreement dated 14 May 2016 entered into between CHYY (USA), LLC., a wholly owned subsidiary of the Company, as tenant, and Mr. Xu Shengheng, the joint chairman and an executive Director of the Company, as landlord, for a lease of office space in 1050 North 252nd Street, Waterloo, Douglas County, Nebraska, 68130, USA with a period of 3 years at a monthly rental rate of US$500. The lease agreement constituted a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. During the year ended 31 December 2017, the rental paid to Mr. Xu pursuant to the lease agreement amounted to HK$47,000. As the applicable percentage ratios of the rental payable are less than 0.1% and the lease agreement was made on normal commercial terms, this connected transaction is fully exempt under Rule 20.74 (1)of the GEM Listing Rules.

Details of other significant related party transactions of the Group during the year ended 31 December 2017 are set out in note 43 to the 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 scheme as an incentive to the Directors and eligible employees. Details of the share option scheme are set out in note 35 to the financial statements of this report.

COMPETITION AND CONFLICT OF INTERESTS

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

Report of the Directors

AUDIT COMMITTEE

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

The Audit Committee comprises four independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2017 and has provided advice and comments thereon. The Audit Committee held five meetings during the year.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 27 to 33.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 20 to the GEM Listing Rules will be published within three months after the publication of the annual report of the Company.

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.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by Ernst & Young. Ernst & Young has been appointed as auditor of the Company on 8 December 2017 to fill the casual vacancy following the resignation of SHINEWING (HK) CPA Limited with effective from 9 November 2017. A resolution will be proposed to the forthcoming annual general meeting to reappoint Ernst & Young as auditor of the Company.

For and on behalf of the Board

Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 28 March 2018

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2017.

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 (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2017 (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 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 2017, the Board comprised of eleven Directors including six executive Directors, namely Mr. An Yi, Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi, an non-executive Director namely Mr. Zhao Youmin and four independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui.

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, internal control and risk management 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 2017, a total of five regular and adhoc Board meetings were held.

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

Corporate Governance Report

During the year ended 31 December 2017, five 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. An Yi *(Appointed on 30 March 2017)*	1/3	N/A	N/A	N/A	2/3
Mr. Liu Dajun *(Resigned on 30 March 2017)*	2/3	N/A	1/1	1/1	N/A
Mr. Xu Shengheng	5/5	N/A	1/1	1/1	3/3
Ms. Chan Wai Kay Katherine	5/5	N/A	N/A	N/A	3/3
Mr. Wang Manquan	5/5	N/A	N/A	N/A	1/3
Mr. Zang Yiran	5/5	N/A	N/A	N/A	3/3
Mr. Dai Qi	5/5	N/A	N/A	N/A	2/3
Non-executive Director					
Mr. Zhao Youmin	5/5	N/A	N/A	N/A	2/3
Independent non-executive Directors					
Mr. Jia Wenzeng	5/5	5/5	1/1	1/1	1/3
Mr. Wu Desheng	3/5	5/5	0/1	1/1	3/3
Mr. Wu Qiang	3/5	5/5	0/1	0/1	1/3
Mr. Guo Qingui	5/5	5/5	1/1	1/1	1/3

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.

Due to their engagement in other business, Mr. An Yi, the Joint Chairman of the Board, and Mr. Zhao Youmin, a non-executive Director, did not attend the extraordinary general meeting held on 8 December 2017. Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, Mr. Wu Qiang and Mr. Guo Qingui, both being the independent non-executive Director, did not attend the extraordinary general meeting held on 13 June 2017 and the adjourned annual general meeting held on 5 July 2017.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the Reporting Period, the role of chairman was jointly performed by Mr. Liu Dajun for the period from 1 January 2017 to 30 March 2017, Mr. An Yi for period from 30 March 2017 to 31 December 2017 and Mr. Xu Shengheng for the year, all of them are joint chairman of the Board. Mr. Wang Manquan has been the chief executive officer during the year.

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, the non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, 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

All Directors, including independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the businesses and activities of the Group. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices. During the year ended 31 December 2017, the Directors have confirmed that they have received the training as follows:

Name of Directors	Reading journals, written training materials and/or updates	Viewing the director training webcast published by Stock Exchange	Receiving briefings from Company Secretary and/or other executives
Mr. An Yi	✓	✓	✓
Mr. Xu Shengheng	✓	✓	✓
Ms. Chan Wai Kay Katherine	✓	✓	✓
Mr. Wang Manquan	✓	✓	✓
Mr. Zang Yiran	✓	✓	✓
Mr. Dai Qi	✓	✓	✓
Mr. Zhao Youmin	✓	✓	✓
Mr. Jia Wenzeng	✓	✓	✓
Mr. Wu Desheng	✓	✓	✓
Mr. Wu Qiang	✓	✓	✓
Mr. Guo Qingui	✓	✓	✓

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 four independent non-executive Directors, namely Mr. Wu Desheng (chairman of remuneration committee), Mr. Jia Wenzeng, Mr. Wu Qiang and Mr. Guo Qingui and two executive Directors, namely Mr. An Yi and Mr. Xu Shengheng, both of them are the deputy chairman of remuneration committee. During the Reporting Period, one meeting was held by the remuneration committee. The remuneration Committee has reviewed and proposed the directors' salaries/fee paid to the appointed Director during the year. In consideration of the directors' remuneration, no director is involved in deciding his own remuneration.

Corporate Governance Report

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 two executive Directors, namely Mr. Xu Shengheng (the chairman of nomination committee) and Mr. An Yi (the deputy chairman of nomination committee) and four independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. During the Reporting Period, the nomination committee held one meeting to consider and recommend the appointment of Director based on the board diversity policy of the Company, the composition of the Board and the background of the candidate.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2017 were performed by Ernst & Young. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditor during the Reporting Period are set out below:

Services rendered	**Fee paid/payable for the year ended 31 December 2017** *HK$'000*
Audit services	3,128
Non-audit services	–
Total audit fee payable for the Reporting Period	3,128

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, risk management and internal control systems of the Group and to provide advice and comments to the Board accordingly.

The audit committee currently consists of four independent non-executive Directors, namely Mr. Jia Wenzeng (chairman of the audit committee), Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui.

During the Reporting Period, five meetings were held to consider and review, among others, the following matters:

1) the quarterly, interim and annual reports of the Company before submission to the Board and the impact of the changes in accounting policies and practices and compliance of the relevant accounting standards, the GEM Listing Rules;

2) the appointment of Ernst & Young to fill the vacancy following the resignation of SHINEWING (HK) CPA Limited and the proposed audit fee;

3) meeting with auditors to discuss the audit matters before commencement of the audit work; and

4) review the risk management and internal control systems of the Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors acknowledged their responsibility for the preparation of the financial statements, which give a true and fair view of the financial position, financial performance and cash flows of the Group. The Auditor 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

Ms. Wong Lai Yuk, the company secretary of the Group, is an associate member of The Hong Kong Institute of Chartered Secretaries in Hong Kong. Ms. Wong joined the Group in December 2001. During the Reporting Period, Ms. Wong (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 AND RISK MANAGEMENT

It is the responsibility of the Board to ensure that a sound and effective risk management and internal control system is in place for safeguarding the interests of the Shareholders and oversee management in design, implementation and monitoring of the risk management and internal control systems. Such systems are designed to manage the Group's risk rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

Corporate Governance Report

The Group's risk management and internal control structure include a management structure with clearly defined lines of responsibility and limits of authority. The Group has comprehensive policies and guidelines in governing and controlling the daily operational and business activities and transactions. The Group adopted a three-line risk management approach to identify, analyze, assess, mitigate and handle risks. The first line of defence is that our department staff/frontline employees who must understand that their roles and responsibilities to identify, assess and monitor risks associated with their scope of works and transactions and should strictly follow internal control measures in their day-to-day transactions. The Group will enhance the compliance of internal control procedures by providing training and guidelines to department staff/frontline employees. The second line of defence is the Group's management that provides independent oversight of the internal control and risk management activities of the first line of defence. They are mainly responsible for ensuring and maintaining effective internal controls and for executing risk and control procedures, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives of the Group and to better monitor and minimize the risks. As the final line of defence, the audit committee of the Company, with the advices and opinions from the external professional party (such as the external auditor) and review by the internal audit function, ensures that the first and second lines of defence are effective.

During the Reporting Period, the Company has put continuous effort in enhancing the control and management system and reinforcing the supervision efforts, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial and operation.

Major works performed during the reporting period to enhance the internal control and risk management are as follow:

- A detailed five-year strategic development plan of the Group was presented to the Board in 2016 which included analysis of the risk to the market and industry in which the Company operated as well as analysis about the Company's own strengths and weaknesses for different perspectives covering operational and financial issues. The five-year strategic development plan of the Group has provided blueprint for the management to drive the Company in meeting its mission and targets.

- The Board has reviewed, analyzed and compared the overall results performance to the budget quarterly with specific financial indicators in order to monitor the execution of the business plan in terms of revenue, cost, profit, funding etc. and ensure the efficient use of business resources.

- An account receivables team was set up to specially follow up long overdue payments and regular meetings were held to co-ordinate the different departments including sales persons to collect payments.

- The management also further revised the internal control procedures in response to the daily operational needs.

- The Group also emphasized the importance of work safety. Procedures for carrying site work is in place and proper training on work safety would be provided to workers and site inspection would be made regularly.

- The internal audit team of the Group provided reports directly to the Audit Committee on a regular basis, for their work performed, audit results and observations.

The management of the Group believes that risk management and internal control systems were effective and adequate and provided such confirmation to the audit committee of the Company for the year. Furthermore, the audit committee has also independently reviewed the risk management and internal control systems of the Group and provided comments thereon.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the legal, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Blackout period and securities dealing restrictions notification will be sent to the relevant directors. Reminders will be given to employees possessing of inside information for preservation of confidentiality and restriction of dealing of securities of the Company. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

Shareholders are provided with contact details of the Company, such as 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 DOCUMENTS

During the Reporting Period, there were no changes in any of the Company's constitutional documents.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF
CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Ground Source Energy Industry Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 130, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts	
The Group derives most of its revenues from construction contracts that are accounted for by applying the percentage-of-completion (the "POC") method. The POC method involves the use of management's significant judgements and estimates, including estimates of the progress towards completion, total contract costs, remaining costs to completion, total contract revenues and contract risks. In addition, revenue, cost and gross profit realised on such contracts can vary from the Group's original estimates because of changes in conditions. The significant accounting judgements and estimates and disclosures for the revenue recognition on construction contracts are included in notes 3 and 5 to the consolidated financial statements.	We obtained material construction contracts to check the contract revenues and review key contract terms. We assessed the contract costs incurred by sample testing supporting documents, such as payment vouchers, supporting suppliers' invoices, contracts, and performing cut-off testing procedures. We assessed the reliability of estimates made by management in the determination of estimated total contract costs by reviewing the preparation, examination and modification process, sample testing key cost elements to material contracts, reviewing the modification of material contracts for any update on estimated total contract costs and accuracy of prior year's budgets. We re-calculated the percentage of completion, based on contract costs incurred to estimated total contract costs, and the revenues recognised under the POC method on a sampling basis. In addition, we performed analytical review procedures on the gross margins of major construction contracts of the Group.
Impairment of trade receivables and amounts due from customers for contract work	
As at 31 December 2017, the Group had trade receivables and amounts due from customers for contract work of HK$199,718,000 and HK$514,962,000, respectively. The impairment allowance of trade receivables and amounts due from customers for contract work is recognised based on management's assessment, which involves the use of significant judgements and accounting estimates including the consideration of credit risks of the customers, historical payment records and existence of disputes. The significant accounting judgements and estimates and disclosures for the impairment of trade receivables and amounts due from customers for contract work are included in notes 3, 22 and 23 to the consolidated financial statements.	We assessed management's accounting estimates relevant to the impairment allowance of trade receivables by evaluating customers' financial position, especially for those with significant overdue balances, through inquiry with management and checking public available information, checking the ageing of trade receivable balances and historical and post year end payment records and discussing the collectability of trade receivables with management. We assessed management's accounting estimates relevant to the impairment allowance of amounts due from customers for contract work by evaluating customers' financial position for material balances, inquiring with management, checking to public available information, assessing market conditions, and checking payments received subsequent to the end of the reporting period and the remaining contract volume at the end of the reporting period together with the progress billings.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value of investment properties and leasehold land and buildings	
As at 31 December 2017, the Group had significant amounts of investment properties and leasehold land and buildings that were measured at fair value using significant unobservable inputs (Level 3 in the fair value hierarchy). Management engaged an independent external valuer with relevant qualifications to perform the valuation of such properties. The valuation depends on a range of estimates and assumptions, such as the analysis of the economic environment and future trend of the regions where the investment properties and leasehold land and buildings are located, the estimated construction costs, anticipated rentals in the future and the discount rates. The changes in estimates and assumptions would result in changes in the fair values of the investment properties and leasehold land and buildings. The significant accounting judgements and estimates and further details about the fair values of investment properties and leasehold land and buildings are included in notes 3, 13 and 14 to the consolidated financial statements.	We assessed the objectivity, independence and competence of the independent external valuer engaged by management. We reviewed and assessed the valuation method, assumptions as well as the key valuation inputs applied, such as lease term, current average rentals, anticipated rentals in the future, lease area, estimated construction costs and the discount rates, with the assistance from our internal valuation specialists. Our procedures included, among others, discussions with management and the external valuer about anticipated rentals in the future, assessing the estimates by management in the determination of estimated construction costs, checking input data to the current signed rental contracts, historical and market data and benchmarking discount rate to companies in similar industries. We further reviewed the presentation and disclosures in the consolidated financial statements on the fair values of investment properties and leasehold land and buildings.
Impairment of goodwill	
Management is required to test goodwill for impairment on an annual basis and the process involved significant management judgements and estimates. As at 31 December 2017, the Group recorded goodwill of approximately HK$465,760,000 which was allocated to an individual cash-generating unit, "shallow geothermal energy" segment. The assessment process and sensitivity analysis, which were performed by management with the assistance from an independent external valuer, are difficult and complex and required management judgements and are affected by expected future market conditions. The significant accounting judgements and estimates and disclosures of goodwill are included in notes 3 and 16 to the consolidated financial statements.	We assessed the objectivity, independence and competence of the independent external valuer engaged by management. We have involved our internal valuation specialists to assist us in the evaluation of the key assumptions used in the impairment analyses, such as gross margin, long-term growth rates and the discount rate. Our procedures included testing the assumptions used in the cash flow forecast by checking uncompleted signed contracts, discussing with management about potential contracts and assessing the accuracy of previous forecasts by comparison with the actual performance. We also performed sensitivity analyses around key drivers of the cash flow forecasts and discussed with management on the outcomes of the assessment. We further assessed the adequacy of the disclosures concerning goodwill.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants

Hong Kong
28 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**778,153**	619,053
Cost of sales		**(614,244)**	(508,454)
Gross profit		**163,909**	110,599
Other income and gains	5	**37,777**	55,474
Selling and distribution expenses		**(23,302)**	(31,076)
Administrative expenses		**(115,669)**	(122,208)
Finance costs	7	**(48,568)**	(36,106)
Fair value changes on investment properties	14	**25,900**	23,256
Other expenses		**(17,227)**	(4,765)
Share of profits and losses of:			
A joint venture		**276**	128
Associates		**2,473**	483
Share-based payment expenses	35	**(9,546)**	(5,309)
PROFIT/(LOSS) BEFORE TAX	6	**16,023**	(9,524)
Income tax expense	10	**(12,061)**	(22,105)
PROFIT/(LOSS) FOR THE YEAR		**3,962**	(31,629)
Attributable to:			
Owners of the parent		**10,533**	(30,816)
Non-controlling interests		**(6,571)**	(813)
		3,962	(31,629)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
			(Adjusted)
Basic and diluted (expressed in HK cents)		**0.30**	(0.99)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**3,962**	(31,629)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(5,188)**	(1,092)
Reclassification adjustment for losses included in the consolidated statement of profit or loss – impairment loss		**6,189**	–
		1,001	(1,092)
Exchange differences:			
Exchange differences on translation of foreign operations		**86,610**	(59,318)
Share of other comprehensive income/(loss) of a joint venture		**536**	(728)
Share of other comprehensive income/(loss) of associates		**1,542**	(746)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**89,689**	(61,884)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation	13	**14,912**	1,869
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**14,912**	1,869
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**104,601**	(60,015)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**108,563**	(91,644)
Attributable to:			
Owners of the parent		**109,619**	(88,029)
Non-controlling interests		**(1,056)**	(3,615)
		108,563	(91,644)

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**349,935**	326,850
Investment properties	14	**601,607**	513,383
Deposits paid for acquisition of land use rights	15	**105,802**	119,965
Goodwill	16	**465,760**	465,760
Investment in a joint venture	17	**7,578**	6,766
Investments in associates	18	**40,594**	36,579
Available-for-sale investments	19	**99,932**	98,289
Deferred tax assets	33	**30,324**	26,319
Long-term prepayments	24	**176,631**	8,371
Trade receivables	23	**96,408**	54,544
Total non-current assets		**1,974,571**	1,656,826
CURRENT ASSETS			
Inventories	20	**40,950**	60,925
Properties held for sale under development	21	**95,507**	88,546
Trade receivables	23	**103,310**	173,086
Prepayments, deposits and other receivables	24	**245,687**	152,859
Amounts due from customers for contract work	22	**514,962**	317,832
Amount due from a related company	25	**–**	526
Amounts due from associates	26	**–**	6,474
Amount due from a joint venture	26	**202**	–
Equity investments at fair value through profit or loss	27	**3,072**	64
Cash and cash equivalents	28	**122,004**	73,931
Total current assets		**1,125,694**	874,243
CURRENT LIABILITIES			
Trade and bills payables	29	**381,705**	233,536
Other payables and accruals	30	**162,525**	171,098
Amounts due to customers for contract work	22	**12,290**	12,207
Amounts due to associates	26	**18,644**	–
Amount due to a joint venture	26	**–**	1,393
Amount due to a related company	25	**11,203**	–
Interest-bearing bank borrowings	31	**89,693**	–
Tax payable		**161,075**	148,209
Total current liabilities		**837,135**	566,443
NET CURRENT ASSETS		**288,559**	307,800
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,263,130**	1,964,626

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
TOTAL ASSETS LESS CURRENT LIABIILTIES		**2,263,130**	1,964,626
NON-CURRENT LIABILITIES			
Other payables and accruals	30	**9,547**	2,823
Interest-bearing bank borrowings	31	**480,286**	446,662
Deferred income	32	**10,542**	9,804
Deferred tax liabilities	33	**75,725**	64,035
Total non-current liabilities		**576,100**	523,324
Net assets		**1,687,030**	1,441,302
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	**313,793**	223,990
Reserves	36	**1,313,417**	1,171,857
		1,627,210	1,395,847
Non-controlling interests		**59,820**	45,455
Total equity		**1,687,030**	1,441,302

Chan Wai Kay Katherine
Director

Zang Yiran
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent													
	Notes	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Treasury shares HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		225,184	885,718	2,935	(3,293)	26,217	154,381	(1,694)	32,903	51,142	(1,430)	103,965	1,476,028	44,423	1,520,451
Loss for the year		–	–	–	–	–	–	–	–	–	–	(30,816)	(30,816)	(813)	(31,629)
Other comprehensive income/(loss) for the year:															
Changes in fair value of available-for-sale investments		–	–	–	–	–	–	–	(1,092)	–	–	–	(1,092)	–	(1,092)
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	(56,516)	–	(56,516)	(2,802)	(59,318)
Gain on property revaluation	13	–	–	–	–	1,869	–	–	–	–	–	–	1,869	–	1,869
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	–	–	–	(728)	–	(728)	–	(728)
Share of other comprehensive loss of associates		–	–	–	–	–	–	–	–	–	(746)	–	(746)	–	(746)
Total comprehensive income/(loss) for the year		–	–	–	–	1,869	–	–	(1,092)	–	(57,990)	(30,816)	(88,029)	(3,615)	(91,644)
Acquisition of non-controlling interests		–	–	–	–	–	–	4,669	–	–	–	–	4,669	(23,304)	(18,635)
Shares repurchased	34	(1,194)	(4,229)	–	3,293	–	–	–	–	–	–	–	(2,130)	–	(2,130)
Equity-settled share option arrangements	35	–	–	–	–	–	–	–	–	5,309	–	–	5,309	–	5,309
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	–	27,951	27,951
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	–	(19,968)	–	19,968	–	–	–
At 31 December 2016		223,990	881,489*	2,935*	–*	28,086*	154,381*	2,975*	31,811*	36,483*	(59,420)*	93,117*	1,395,847	45,455	1,441,302

continued/...

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners of the parent												
	Notes	Share capital *HK$'000*	Share premium *HK$'000*	Statutory reserve *HK$'000*	Asset revaluation reserve *HK$'000*	Contributed surplus *HK$'000*	Special reserve *HK$'000*	Capital reserve *HK$'000*	Share-option reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017		223,990	881,489	2,935	28,086	154,381	2,975	31,811	36,483	(59,420)	93,117	1,395,847	45,455	1,441,302
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	10,533	10,533	(6,571)	3,962
Other comprehensive income/(loss) for the year:														
Changes in fair value of available-for-sale investments		–	–	–	–	–	–	1,001	–	–	–	1,001	–	1,001
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	81,095	–	81,095	5,515	86,610
Gain on property revaluation	*13*	–	–	–	14,912	–	–	–	–	–	–	14,912	–	14,912
Share of other comprehensive income of a joint venture		–	–	–	–	–	–	–	–	536	–	536	–	536
Share of other comprehensive income of associates		–	–	–	–	–	–	–	–	1,542	–	1,542	–	1,542
Total comprehensive income/(loss) for the year		–	–	–	14,912	–	–	1,001	–	83,173	10,533	109,619	(1,056)	108,563
Issue of shares	*34*	89,803	25,252	–	–	–	–	–	–	–	–	115,055	–	115,055
Share issue expenses		–	(2,857)	–	–	–	–	–	–	–	–	(2,857)	–	(2,857)
Equity-settled share option arrangements	*35*	–	–	–	–	–	–	–	9,546	–	–	9,546	–	9,546
Disposal of subsidiaries	*37*	–	–	–	–	–	–	–	–	–	–	–	15,421	15,421
At 31 December 2017		313,793	903,884*	2,935*	42,998*	154,381*	2,975*	32,812*	46,029*	23,753*	103,650*	1,627,210	59,820	1,687,030

* These reserve accounts comprise the consolidated reserves of HK$1,313,417,000 (2016: HK$1,171,857,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		16,023	(9,524)
Adjustments for:			
Finance costs	7	48,568	36,106
Interest income	5	(782)	(475)
Gain on disposal of investment properties	5	–	(23,271)
Gain on disposal of items of property, plant and equipment	5	(6,535)	–
Loss on disposal of available-for-sale investments		463	–
Gain on disposal of subsidiaries	5	(24,236)	–
Dividend income from available-for-sale investments	5	(2,433)	–
Depreciation of property, plant and equipment	6	17,666	12,653
Changes in fair value of equity investments at fair value through profit or loss	5	(661)	(5)
Dividend income from equity investments at fair value through profit or loss		(5)	–
Loss on uncertainty in respect of collectability of amounts due from customers for contract work	6	58,678	42,471
Changes in fair value of investment properties	6	(25,900)	(23,256)
Impairment loss recognised in respect of trade receivables	6	10,550	9,003
Impairment loss recognised in respect of available-for-sale investments	19	6,189	–
Reversal of impairment loss recognised in respect of trade receivables		(86)	(5,538)
Share-based payment expenses	35	9,546	5,309
Share of profits and losses of associates		(2,473)	(483)
Share of profits and losses of a joint venture		(276)	(128)
		104,296	42,862
Decrease/(increase) in inventories		24,713	(23,686)
Decrease/(increase) in trade receivables		35,903	(64,128)
Increase in prepayments, deposits and other receivables		(75,629)	(9,415)
Increase in amounts due from customers for contract work		(229,091)	(97,777)
Decrease/(increase) in amount due from a related company		570	(2,826)
Increase in trade and bills payables		148,109	44,415
Increase in other payables and accruals		34,325	38,072
Increase in amounts due to associates		18,644	–
(Decrease)/increase in amounts due to customers for contract work		(943)	1,541
Cash generated from/(used in) operations		60,897	(70,942)
Income tax paid		(2,282)	(874)
Net cash flows from/(used in) operating activities		58,615	(71,816)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
			continued/...
Net cash flows from/(used in) operating activities		**58,615**	(71,816)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**782**	475
Dividend income from available-for-sale investments		**2,433**	–
Dividend income from equity investments at fair value through profit or loss		**5**	–
Purchases of items of property, plant and equipment		**(7,456)**	(25,213)
Purchases of equity investments at fair value through profit or loss		**(2,346)**	–
Proceeds on disposal of items of property, plant and equipment		**12,640**	–
Deposit paid for acquisitions of land use rights		**(19,024)**	(41,487)
Prepayments paid for an investment	*24*	**(171,690)**	–
Development costs paid for investment properties under construction or development	*14*	**(21,933)**	(18,038)
Repayment from associates		**7,018**	5,544
Repayment from non-controlling interests		**–**	1,486
Disposal of subsidiaries	*37*	**20,004**	–
Investments in associates		**–**	(7,105)
Disposal of available-for-sale investments		**–**	100,324
Net cash flows (used in)/from investing activities		**(179,567)**	15,986
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings	*38*	**215,529**	446,662
Proceeds from issue of shares	*34*	**115,055**	–
Share issue expenses		**(2,857)**	–
Repurchase of ordinary shares		**–**	(2,130)
Repayment of bank borrowings	*38*	**(125,836)**	(446,663)
Capital contribution from non-controlling interests		**–**	27,951
Government grants received	*32*	**–**	2,233
Advanced from a joint venture		**–**	1,393
Repayment to a joint venture		**(1,393)**	–
Interest paid		**(37,365)**	(36,106)
Net cash flows from/(used in) financing activities		**163,133**	(6,660)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**42,181**	(62,490)
Cash and cash equivalents at beginning of year		**73,931**	144,818
Effect of foreign exchange rate changes, net		**5,892**	(8,397)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**122,004**	73,931
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*28*	**117,021**	70,119
Cash held at non-bank financial institutions	*28*	**4,983**	3,812
Cash and cash equivalents as stated in the consolidated statements of financial position and cash flows		**122,004**	73,931

Notes to Financial Statements

As at 31 December 2017

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

During the year, the Group was involved in the following principal activities:

- Provision, installation and maintenance of shallow geothermal energy utilisation system
- Trading of air conditioning heat pump products
- Investment in properties for its potential rental income
- Trading of securities and other types of investments

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
CGSE Ever Source Group Limited (i)	British Virgin Islands	US dollars ("US$") 166,667	100	–	Investment holding and trading of securities
Beijing Enterprises Source (Beijing) Ever Company Limited* ("北京北控恒有源科技發展有限公司") (i)(ii)	People's Republic of China ("PRC")	US$ 3,000,000	–	100	Technical know-how holding
Beijing Ever Source Property Management Limited* ("北京恒有源物業管理有限公司") (i)(iii)	PRC	Renminbi ("RMB") 3,000,000	–	100	Property management and technical support service
Ever Source Science & Technology Development Group Co., Ltd* ("恒有源科技發展集團有限公司") (i)(ii)	PRC	RMB 239,188,502	–	100	Production and sales of geothermal energy systems
Beijing Ever Source Environmental System Installation Limited* ("北京恒有源環境系統設備安裝有限公司") (i)(iii)	PRC	RMB 50,000,000	–	100	Installation of energy systems
Heng Run Feng Reality (Dalian) Company Ltd* ("恒潤豐置業(大連)有限公司") (i)(ii)	PRC	US$ 12,000,000	–	100	Properties investment and development
Hong Yuan Ground Source Heating Device Technology Co., Ltd* ("宏源地能熱寶技術有限公司") (i)(iii)	PRC	RMB 50,000,000	–	51	Sales of air conditioning heat pump products

* The English names of the companies registered in the PRC represent the best efforts of management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) The subsidiaries are wholly-foreign-owned enterprises established in the PRC.

(iii) The subsidiaries are registered as companies with limited liability under PRC law.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the "HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, leasehold land and buildings classified as property, plant and equipment, and listed equity investments classified as available-for-sale investments and equity investments at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements

As at 31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 38 to the consolidated financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC) -Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC) -Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 22 and HKAS 23[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts related to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables and contract assets. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that, provision for impairment will not significantly increase upon the initial adoption of the standard.

Notes to Financial Statements

As at 31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. After processing five-step model to contracts, the expected changes in accounting policies, as further explained below, will have no material impact on the Group's financial statements from 2018 onwards.

The Group's principal activities consist of sales, installation and maintenance of shallow geothermal energy utilisation system and sales of air conditioning heat pump products . The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Sales, installation and maintenance of shallow geothermal energy utilisation system

The Group engages in the installation and maintenance of shallow geothermal energy utilisation system. Revenue from the construction contracts is recognised on the percentage of completion basis. The Group considers the requirements to recognise revenue over the time under HKFRS 15 is similar to the current revenue recognition policy on construction contracts of the Group. The group has determined that when HKFRS 15 adopted, revenue from the sales, installation and maintenance of shallow geothermal energy utilisation system for 2017 will have no material impact on the Group's financial statements if the Group recognises the contracting revenue over time by using the cost-based input methods.

(b) Sales of air conditioning heat pump products

The Group engages in the sale of air conditioning pump products. Revenue from such products is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. The group has determined that when HKFRS 15 adopted, revenue from the sales of air conditioning heat pump products for 2017 will have no material impact on the Group's financial statements.

(c) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between two types of leases: operating and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17.

Notes to Financial Statements

As at 31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies HKFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provision permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of HKFRS 16 on its consolidated financial statements.

As disclosed in note 41(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$7,933,000.

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to HKAS 40,issued in April 2017,clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and the joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and the joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or the joint venture are eliminated to the extent of the Group's investments in the associates or the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or the joint venture is included as part of the Group's investments in associates or the joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, properties held for sale under development, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Categories	**Estimated useful lives**
Leasehold land and buildings	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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and when completed and ready for use.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the capital reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to associates, a joint venture and a related company and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and the joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and the joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

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

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

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contract for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract for services *(Continued)*

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 treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

As at 31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Social pension plans

The Group has social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic and supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to the statement of profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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As at 31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK$465,760,000 (2016: HK$465,760,000). Further details are given in note 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Estimation of fair value of investment properties and leasehold land and buildings

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amounts of investment properties and leasehold land and buildings at 31 December 2017 were HK$601,607,000 (2016: HK$513,383,000) and HK$282,877,000 (2016: HK$253,983,000), respectively. Further details, including the key assumptions used for fair value measurement, are given in notes 14 and 13 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for certain deductible temporary differences to the extent that it is probable that taxable profit will be available against which the unused temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 33 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The Group performs ongoing credit evaluations of these receivables and adjusts credit limits based on payment history and these debtors' 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. Further details are included in note 23 to the financial statements.

Notes to Financial Statements

As at 31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision against obsolete inventories

Management of the Group reviews an ageing analysis of inventories 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. 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 2017, the carrying values of inventories were approximately HK$40,950,000 (2016: HK$60,925,000). No impairment losses were recognised for both years.

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 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 expenses for an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in profit or loss.

During the year ended 31 December 2017, construction contracts revenue and loss on uncertainty arises about the collectability amounting to approximately HK$722,494,000 (2016: HK$373,466,000) and HK$58,678,000 (2016: HK$42,471,000), respectively, were recognised in the consolidated statement of profit or loss.

Impairment of available-for-sale investments

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assessment about the decline in value based on the timing and extent to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, impairment losses of HK$6,189,000 have been recognised for available-for-sale assets (2016: Nil). The carrying amount of available-for-sale assets was HK$99,932,000 (2016: HK$98,289,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

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

(b) Air conditioning heat pump segment – trading of air conditioning heat pump products;

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

(d) Securities investment and trading segment – trading of securities and other types of investment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that share of profits and losses of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and finance costs are excluded from such measurement.

Segment assets exclude, certain other receivables, investments in associates and a joint venture, deferred tax assets, amounts due from a joint venture, associates and a related company, cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude certain other payables and accruals, amounts due to a joint venture, associates and a related company, interest-bearing bank borrowings, deferred tax liabilities and tax payable as these liabilities are managed on a group basis.

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

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As at 31 December 2017

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2017				
	Shallow geothermal energy	Air conditioning heat pump	Properties investment and development	Securities investment and trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	740,470	23,906	13,777	–	778,153
Intersegment sales	–	44,028	–	–	44,028
	740,470	67,934	13,777	–	822,181
Reconciliation:					
Elimination of intersegment sales					(44,028)
Revenue					778,153
Segment results	58,790	5,472	39,677	3,099	107,038
Reconciliation:					
Elimination of intersegment results					(5,331)
Share of profits and losses of associates					2,473
Share of profits and losses of a joint venture					276
Unallocated other income					2,252
Corporate and other unallocated expenses					(42,117)
Finance costs					(48,568)
Profit before tax					16,023
Segment assets	1,819,027	92,852	922,962	106,496	2,941,337
Reconciliation:					
Elimination of intersegment receivables					(43,768)
Corporate and other unallocated assets					202,696
Total assets					3,100,265
Segment liabilities	466,209	84,782	46,889	6,758	604,638
Reconciliation:					
Elimination of intersegment payables					(43,768)
Corporate and other unallocated liabilities					852,365
Total liabilities					1,413,235

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2017				
	Shallow geothermal energy	Air conditioning heat pump	Properties investment and development	Securities investment and trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation	14,208	615	2,517	326	17,666
Impairment loss recognised in respect of trade receivables	10,114	–	436	–	10,550
Reversal of impairment loss in respect of trade receivables	(86)	–	–	–	(86)
Impairment loss recognised in respect of available-for-sale investments	–	–	–	6,189	6,189
Loss on uncertainty in respect of collectability of amounts due from customers of contract work	58,678	–	–	–	58,678
Changes in fair value of investment properties	–	–	(25,900)	–	(25,900)
Capital expenditure	3,488	3,950	40,975	–	48,413
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	40,594	–	–	–	40,594
Investment in a joint venture	7,578	–	–	–	7,578
Share of profits and losses of associates	(2,473)	–	–	–	(2,473)
Share of profits and losses of a joint venture	(276)	–	–	–	(276)
Share-based payment expenses	9,546	–	–	–	9,546

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As at 31 December 2017

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2016				
	Shallow geothermal energy	Air conditioning heat pump	Properties investment and development	Securities investment and trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:					
Sales to external customers	428,413	172,518	18,122	–	619,053
Intersegment sales	–	44,335	–	–	44,335
	428,413	216,853	18,122	–	663,388
Reconciliation:					
Elimination of intersegment sales					(44,335)
Revenue					619,053
Segment results	35,175	7,355	64,649	4,481	111,660
Reconciliation:					
Elimination of intersegment results					(5,734)
Share of profits and losses of associates					483
Share of profits and losses of a joint venture					128
Unallocated other income					2,053
Corporate and other unallocated expenses					(82,008)
Finance costs					(36,106)
Loss before tax					(9,524)
Segment assets	1,387,444	108,625	832,683	99,906	2,428,658
Reconciliation:					
Elimination of intersegment receivables					(48,184)
Corporate and other unallocated assets					150,595
Total assets					2,531,069
Segment liabilities	379,585	42,352	26,776	4,353	453,066
Reconciliation:					
Elimination of intersegment payables					(48,184)
Corporate and other unallocated liabilities					684,885
Total liabilities					1,089,767

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Year ended 31 December 2016				
	Shallow geothermal energy	Air conditioning heat pump	Properties investment and development	Securities investment and trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation	11,373	595	685	–	12,653
Impairment loss recognised in respect of trade receivables	9,003	–	–	–	9,003
Reversal of impairment loss in respect of trade receivables	(4,238)	–	–	–	(4,238)
Loss on uncertainty in respect of collectability of amounts due from customers of contract work	42,471	–	–	–	42,471
Changes in fair value of investment properties	–	–	(23,256)	–	(23,256)
Capital expenditure	18,387	5,239	59,525	–	83,151
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	36,579	–	–	–	36,579
Investment in a joint venture	6,766	–	–	–	6,766
Share of profits and losses of associates	(483)	–	–	–	(483)
Share of profits and losses of a joint venture	(128)	–	–	–	(128)
Share-based payment expenses	5,309	–	–	–	5,309

Geographical information

The Group's operations are mainly located in the PRC. All of the Group's revenue from external customers based on the location at which the services were provided or the goods were delivered and non-current assets are located in the PRC.

Information about major customers

Information about revenue from major customers which amounted to 10% or more of Group's revenue is shown in the following table:

	2017	2016
	HK$'000	*HK$'000*
Customer A	–	135,527
Customer B	**316,805**	–
	316,805	135,527
Total Revenue	778,153	619,053
Proportion of revenue	**40.7%**	21.9%

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As at 31 December 2017

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the values of services rendered; and gross rental income received and receivable from investment properties during the year.

An analysis of revenue, other income and gains is as follows:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sales, installation and maintenance of shallow geothermal energy utilisation system	**740,470**	428,413
Sales of air conditioning heat pump products	**23,906**	172,518
Rental income	**13,777**	18,122
	778,153	619,053
Other income		
Bank interest income	**782**	475
Sale of scrap materials	**394**	232
Government grants (note)	**1,330**	24,137
Dividend income from equity investments at fair value through profit or loss	**5**	1
Dividend income from available-for-sale investments	**2,433**	–
Others	**1,401**	2,067
	6,345	26,912
Gains		
Fair value change on equity investments at fair value through profit or loss	**661**	5
Gain on disposal of investment properties	**–**	23,271
Gain on disposal of subsidiaries *(note 37)*	**24,236**	–
Gain on disposal of items of property, plant and equipment	**6,535**	–
Gain on disposal of available-for-sale investments	**–**	4,475
Exchange gain	**–**	811
	31,432	28,562
	37,777	55,474

Note: Government grants have been received in respect of certain heating projects of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold		**23,765**	170,897
Cost of services provided		**531,801**	295,086
Depreciation	13	**17,666**	12,653
Research and development costs		**13,998**	11,199
Minimum lease payments under operating leases		**7,773**	8,310
Auditor's remuneration		**3,128**	2,382
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**57,801**	66,520
Equity-settled share option expense		**9,546**	5,309
Pension scheme contributions		**8,546**	10,588
		75,893	82,417
Impairment loss recognised in respect of trade receivables*	23	**10,550**	9,003
Impairment loss recognised in respect of available-for-sale investments*	19	**6,189**	–
Reversal of impairment loss of trade receivables*	23	**(86)**	(4,238)
Changes in fair value of investment properties	14	**(25,900)**	(23,256)
Fair value change on equity investments at fair value through profit or loss		**(661)**	(5)
Loss/(gain) on disposal of available-for-sale investments*		**463**	(4,475)
Dividend income from available-for-sale investments		**(2,433)**	–
Dividend income from equity investments at fair value through profit or loss		**(5)**	(1)
Bank interest income		**(782)**	(475)
Gain on disposal of investment properties		**–**	(23,271)
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	22	**58,678**	42,471
Gain on disposal of items of property, plant and equipment		**(6,535)**	–
Gain on disposal of subsidiaries	37	**(24,236)**	–

* Impairment loss recognised in respect of trade receivables and available-for-sale investments, reversal of impairment loss of trade receivables and loss on disposal of available-for-sale investments are included in "Other expenses" in the consolidated statement of profit or loss.

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	37,365	36,106
Guarantee fee on bank loans	11,203	–
	48,568	36,106

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2017	2016
	HK$'000	*HK$'000*
Fees	600	450
Other emoluments:		
Salaries, allowances and benefits in kind	9,118	8,475
Equity-settled share option expense	–	4,466
Pension scheme contributions	147	44
	9,265	12,985
	9,865	13,435

In prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees and other emoluments paid to independent non-executive directors during the year were as follows:

	Fees	Equity-settled share option expense	Total
	HK$'000	*HK$'000*	*HK$'000*
2017			
Mr. Wu Qiang	**150**	–	**150**
Mr. Jia Wenzeng	**150**	–	**150**
Mr. Zhang Honghai *(note (4))*	–	–	–
Mr. Wu Desheng	**150**	–	**150**
Mr. Guo Qingui	**150**	–	**150**
	600	–	**600**
2016			
Mr. Wu Qiang *(note (1))*	–	–	–
Mr. Jia Wenzeng	150	175	325
Mr. Zhang Honghai	150	–	150
Mr. Wu Desheng	150	175	325
Mr. Guo Qingui *(note (1))*	–	–	–
	450	350	800

There were no other emoluments payable to the independent non-executive directors during the year (2016:Nil).

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As at 31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and the chief executive

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Chief executive:					
Mr. Wang Manquan	–	1,186	–	111	1,297
	–	1,186	–	111	1,297
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,920	–	18	1,938
Mr. Liu Dajun *(note (2))*	–	493	–	–	493
Mr. An Yi *(note (3))*	–	1,523	–	–	1,523
Mr. Zang Yiran	–	1,200	–	–	1,200
Mr. Xu Shengheng	–	2,016	–	18	2,034
Mr. Dai Qi	–	780	–	–	780
	–	7,932	–	36	7,968
Non-executive director:					
Mr. Zhao Youmin	–	–	–	–	–
	–	–	–	–	–
	–	9,118	–	147	9,265
2016					
Chief executive:					
Mr. Wang Manquan *(note (6))*	–	543	1,372	8	1,923
	–	543	1,372	8	1,923
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,920	1,372	18	3,310
Mr. Liu Dajun	–	2,016	–	–	2,016
Mr. Zang Yiran	–	1,200	–	–	1,200
Mr. Xu Shengheng *(note (5))*	–	2,016	1,372	18	3,406
Mr. Dai Qi *(note (7))*	–	–	–	–	–
	–	7,152	2,744	36	9,932
Non-executive directors:					
Mr. Zhao Youmin	–	–	–	–	–
Mr. Dai Qi *(note (7))*	–	780	–	–	780
	–	780	–	–	780
	–	8,475	4,116	44	12,635

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors and the chief executive *(Continued)*

Notes:

(1) Mr. Wu Qiang and Mr. Guo Qingui were appointed as independent non-executive directors effective from 29 December 2016.

(2) Mr. Liu Dajun resigned as an executive director effective from 30 March 2017.

(3) Mr. An Yi was appointed as an executive director effective from 30 March 2017.

(4) Mr. Zhang Honghai resigned as an independent non-executive director effective from 1 January 2017.

(5) Mr. Xu Shengheng resigned as the chief executive effective from 6 July 2016.

(6) Mr. Wang Manquan was appointed as the chief executive effective from 13 July 2016.

(7) Mr. Dai Qi was re-designated from a non-executive director to an executive director effective from 29 December 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2016: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of two (2016: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,124**	1,200
Equity-settled share option expense	**1,326**	499
Pension scheme contributions	**106**	–
	3,556	1,699

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	**2**	1

During the year and in prior years, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

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10. INCOME TAX EXPENSE

Pursuant to the laws and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI during both years.

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 both years.

Under the Law of the PRC 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 subsidiaries were recognised as high and new technology enterprises and the income tax rate applicable to these subsidiaries was 15% for the year ended 31 December 2017 (2016: 15%).

	2017	2016
	HK$'000	*HK$'000*
Current – Mainland China	**7,546**	18,984
Deferred *(note 33)*	**4,515**	3,121
Total tax charge for the year	**12,061**	22,105

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the country in which majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate are as follows:

	2017	2016
	HK$'000	*HK$'000*
Profit/(loss) before tax	**16,023**	(9,524)
Tax at statutory tax rate of 25%	**4,006**	(2,381)
Effect of differences in tax rates applicable to certain subsidiaries	**(4,629)**	(1,752)
Profits and losses attributable to a joint venture and associates	**(687)**	(153)
Tax losses utilised from previous periods	**(21,145)**	–
Income not subject to tax	**–**	(5,818)
Expenses not deductible for tax	**10,314**	15,022
Tax losses not recognised	**24,202**	17,187
Tax charge at the Group's effective rate	**12,061**	22,105

The share of tax attributable to associates and a joint venture amounting to HK$618,000 (2016: HK$121,000) and HK$69,000 (2016: HK$32,000), respectively, is included in "Share of profits and losses of a joint venture and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

During the years ended 31 December 2017 and 2016, no dividend was declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2017 has been proposed by the directors of the Company.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,530,455,000 (2016: 3,111,850,000 (adjusted)) in issue during the year, as adjusted to reflect the rights issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price of the Company's shares for the year ended 31 December 2017.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2017	2016
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	**10,533**	(30,816)

	Number of shares	
	2017	2016
	'000	*'000*
		(Adjusted)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**3,530,455**	3,111,850

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Computer equip-ment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017								
At 1 January 2017:								
Cost or valuation	253,983	3,858	90,745	2,946	12,896	9,189	2,417	376,034
Accumulated depreciation and impairment	–	(2,353)	(30,173)	(2,824)	(6,267)	(7,567)	–	(49,184)
Net carrying amount	253,983	1,505	60,572	122	6,629	1,622	2,417	326,850
At 1 January 2017, net of accumulated depreciation and impairment	253,983	1,505	60,572	122	6,629	1,622	2,417	326,850
Additions	–	–	62	7	4,085	396	2,906	7,456
Disposals	–	(5,999)	–	–	–	(106)	–	(6,105)
Disposals of subsidiaries	–	–	(57)	(9)	(11)	(262)	–	(339)
Depreciation provided during the year	(5,408)	(315)	(9,959)	(104)	(1,305)	(575)	–	(17,666)
Surplus on revaluation	14,912	–	–	–	–	–	–	14,912
Transfers	–	5,213	–	–	–	–	(5,213)	–
Exchange realignment	19,390	114	4,545	13	499	84	182	24,827
At 31 December 2017, net of accumulated depreciation and impairment	282,877	518	55,163	29	9,897	1,159	292	349,935
At 31 December 2017:								
Cost or valuation	282,877	3,284	98,180	3,152	17,925	9,686	292	415,396
Accumulated depreciation and impairment	–	(2,766)	(43,017)	(3,123)	(8,028)	(8,527)	–	(65,461)
Net carrying amount	282,877	518	55,163	29	9,897	1,159	292	349,935

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

	Leasehold Land and buildings *HK$'000*	Leasehold improve-ments *HK$'000*	Plant and machinery *HK$'000*	Computer equip-ment *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2016								
At 1 January 2016:								
Cost or valuation	264,904	4,051	84,288	3,063	5,918	9,613	2,653	374,490
Accumulated depreciation and impairment	–	(2,056)	(21,618)	(2,775)	(5,194)	(7,664)	–	(39,307)
Net carrying amount	264,904	1,995	62,670	288	724	1,949	2,653	335,183
At 1 January 2016, net of accumulated depreciation and impairment	264,904	1,995	62,670	288	724	1,949	2,653	335,183
Additions	4,468	–	10,345	26	7,334	–	1,453	23,626
Depreciation provided during the year	(295)	(383)	(10,234)	(182)	(1,417)	(142)	–	(12,653)
Surplus on revaluation	1,869	–	–	–	–	–	–	1,869
Transfers	–	–	1,519	–	–	–	(1,519)	–
Exchange realignment	(16,963)	(107)	(3,728)	(10)	(12)	(185)	(170)	(21,175)
At 31 December 2016, net of accumulated depreciation and impairment	253,983	1,505	60,572	122	6,629	1,622	2,417	326,850
At 31 December 2016:								
Cost or valuation	253,983	3,858	90,745	2,946	12,896	9,189	2,417	376,034
Accumulated depreciation and impairment	–	(2,353)	(30,173)	(2,824)	(6,267)	(7,567)	–	(49,184)
Net carrying amount	253,983	1,505	60,572	122	6,629	1,622	2,417	326,850

The Group's leasehold land and buildings were revalued individually at the end of the reporting period by Peak Vision Appraisals Limited, an independent professionally qualified valuer, at an aggregate open market value of HK$282,877,000 (2016: HK$253,983,000) based on their existing use. A revaluation surplus of HK$14,912,000 (2016: HK$1,869,000), resulting from the above valuations, has been credited to other comprehensive income.

As at 31 December 2017, the Group is in the process of obtaining the ownership certificates for certain buildings at a carrying amount of approximately HK$188,945,000 (2016: HK$165,611,000). In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair their values to the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

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

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's leasehold land and buildings:

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Office buildings in Dalian, the PRC	**–**	**8,681**	**–**	**8,681**
A club house in Dalian, the PRC	**–**	**–**	**85,251**	**85,251**
Office buildings in Beijing, the PRC	**–**	**–**	**188,945**	**188,945**
	–	**8,681**	**274,196**	**282,877**

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Office buildings in Dalian, the PRC	–	7,816	–	7,816
A club house in Dalian, the PRC	–	–	80,556	80,556
Office buildings in Beijing, the PRC	–	–	165,611	165,611
	–	7,816	246,167	253,983

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

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

Fair value hierarchy *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	A club house in Dalian HK$'000	Office buildings in Beijing HK$'000
Carrying amount at 1 January2016	82,386	173,926
Additions	4,468	–
Exchange realignment	(5,247)	(11,468)
Net gain from a fair value adjustment recognised in other comprehensive income	(1,051)	3,153
Carrying amount at 31 December 2016 and 1 January 2017	80,556	165,611
Depreciation during the year	(1,764)	(3,473)
Exchange realignment	6,276	12,344
Net gain from a fair value adjustment recognised in other comprehensive income	183	14,463
Carrying amount at 31 December 2017	85,251	188,945

Below is a summary of the valuation techniques used and the key inputs to the valuation of leasehold land and buildings:

At 31 December 2017

Carrying value of leasehold land and buildings held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
A club house in Dalian, the PRC HK$85,251,000	Level 3	Depreciated replacement cost approach	Rate of newness 92%, unit rate of replacement cost RMB6,815 per sq.m.	The increase in the rate of newness and unit rate of replacement cost would result in an increase in fair value
Office buildings in Dalian, the PRC HK$8,681,000	Level 2	Direct comparison method	N/A	N/A
Office buildings in Beijing, the PRC HK$188,945,000	Level 3	Income approach	Market unit rent RMB5.12 per sq.m. per day Market yield 5.75%	The increase in the market unit rent would result in an increase in fair value The increase in the market yield would result in a decrease in fair value

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As at 31 December 2017

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

Fair value hierarchy *(continued)*

At 31 December 2016

Carrying value of leasehold land and buildings held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
A club house in Dalian, the PRC HK$80,556,000	Level 3	Depreciated replacement cost approach	Rate of newness 94%, unit rate of replacement cost RMB6,784 per sq.m.	The increase in the rate of newness and unit rate of replacement cost would result in an increase in fair value.
Office buildings in Dalian, the PRC HK$7,816,000	Level 2	Direct comparison method	N/A	N/A
Office buildings in Beijing, the PRC HK$165,611,000	Level 3	Income approach	Market unit rent RMB4.81 per sq.m. per day Market yield 5.75%	The increase in the market unit rent would result in an increase in fair value The increase in the market yield would result in a decrease in fair value

14. INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**513,383**	373,770
Exchange realignment	**40,391**	(21,632)
Development costs paid	**21,933**	18,038
Additions	–	58,849
Additions through acquisition of a subsidiary	–	77,869
Disposals	–	(41,863)
Net gain from a fair value adjustment	**25,900**	23,256
Transfer from deposits paid for acquisition of land use rights (note 15)	–	2,579
Transfer from properties held for sale under development (note 21)	–	22,517
Carrying amount at 31 December	**601,607**	513,383

As at 31 December 2017, the Group is in the process of obtaining the ownership certificates for certain investment properties at a carrying amount of approximately RMB66,080,000 (equivalent to HK$79,344,000) (2016: RMB64,430,000 (equivalent to HK$71,946,000)). In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid the full purchase consideration of these properties and the probability of being evicted on the ground of an absence of formal title is remote.

14. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties consist of three classes of assets, i.e., industrial and ancillary properties, commercial property and residential property, based on the nature, characteristics and risks of each property. The Group's investment properties were measured at fair value on 31 December 2017 based on valuations performed by Peak Vision Appraisals Limited, an independent professionally qualified valuer, at HK$601,607,000. Each year, the Group's management and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Some investment properties are leased to third parties under operating leases, further summary details of which are included in note 41 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Commercial property	**–**	**–**	**28,456**	**28,456**
Residential property	**–**	**–**	**174,224**	**174,224**
Industrial and ancillary properties	**–**	**208,805**	**190,122**	**398,927**
	–	**208,805**	**392,802**	**601,607**

	Fair value measurement as at 31 December 2016 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	HK$'000	HK$'000	HK$'000	HK$'000
Commercial property	–	–	25,906	25,906
Residential property	–	–	150,414	150,414
Industrial and ancillary properties	–	191,485	145,578	337,063
	–	191,485	321,898	513,383

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and there was a transfer from Level 2 into Level 3 amounting to HK$9,022,000 (2016: Nil) due to the change of valuation techniques following the commencement of construction in current year.

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14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial and ancillary properties HK$'000	Residential property HK$'000	Commercial property HK$'000
Carrying amount at 1 January 2016	148,401	174,104	29,116
Exchange realignment	(9,164)	(10,133)	(1,802)
Development costs paid	6,380	11,009	182
Disposals	(28,063)	–	–
Transfer from properties held for sale under development (note 21)	22,517	–	–
Net gain/(loss) from a fair value adjustment recognised in profit or loss	5,507	(24,566)	(1,590)
Carrying amount at 1 January 2017	145,578	150,414	25,906
A transfer from Level 2	9,022	–	–
Exchange realignment	12,491	11,762	1,928
Development costs paid	18,266	3,611	–
Net gain from a fair value adjustment recognised in profit or loss	4,765	8,437	622
Carrying amount at 31 December 2017	190,122	174,224	28,456

14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

At 31 December 2017

Carrying value of investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Industrial and ancillary property in Beijing, the PRC	Level 3	Income approach	Market unit rent RMB3.33 per sq.m. per day	The increase in the market unit rent would result in an increase in fair value
HK$79,344,000			Market yield 7.75%	The increase in the market yield would result in a decrease in fair value
Industrial and ancillary property in Xinyi, the PRC	Level 3	Depreciated replacement cost approach	Unit rate of replacement cost RMB847 per sq.m.	The increase in the unit rate of replacement cost would result in an increase in fair value
HK$14,553,000				
Industrial and ancillary property in Pizhou, the PRC	Level 3	Depreciated replacement cost approach	Unit rate of replacement cost RMB1,778 per sq.m.	The increase in the unit rate of replacement cost would result in an increase in fair value
HK$96,225,000				
Residential property in Dalian, the PRC	Level 3	Residual approach	Market unit sales rate ranging from RMB4,000 per sq.m. to RMB5,800 per sq.m.	The increase in the market unit sales rate would result in an increase in fair value
HK$174,224,000			Estimated cost to completion is RMB2,180 per sq.m.	The increase in the estimated cost to completion would result in a decrease in fair value
Commercial property in Dalian, the PRC	Level 3	Residual approach	Market unit sales rate ranging from RMB4,000 per sq.m. to RMB5,800 per sq.m.	The increase in the market unit sales rate would result in an increase in fair value
HK$28,456,000			Estimated cost to completion from RMB1,120 per sq.m. to RMB2,230 per sq.m.	The increase in the estimated cost to completion would result in a decrease in fair value
Industrial and ancillary property in Mianyang, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$66,280,000				
Industrial and ancillary property in Hangzhou, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$142,525,000				

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14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

At 31 December 2016

Carrying value of investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Industrial and ancillary property in Beijing, the PRC	Level 3	Income approach	Market unit rent RMB3.33 per sq.m. and per day	The increase in the market unit rent would result in an increase in fair value
HK$71,946,000			Market yield 7.75%	The increase in the market yield would result in a decrease in fair value
Industrial and ancillary property in Xinyi, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$9,022,000				
Industrial and ancillary property in Pizhou, the PRC	Level 3	Depreciated replacement cost approach	Unit rate of replacement cost RMB1,373 per sq.m.	The increase in the unit rate of replacement cost would result in an increase in fair value
HK$73,632,000				
Residential property in Dalian, the PRC	Level 3	Residual approach	Market unit sales rate, A range from RMB4,000 per sq.m. to RMB5,800 per sq.m.	The increase in the market unit sales would result in an increase in fair value
HK$150,414,000			Estimated cost to completion is RMB2,180 per sq.m..	The increase in the estimated cost to completion would result in a decrease in fair value
Commercial property in Dalian, the PRC	Level 3	Residual approach	Market unit sales rate, A range from RMB4,000 per sq.m. to RMB5,800 per sq.m.	The increase in the market unit sales would result in an increase in fair value
HK$25,906,000			Estimated cost to completion from RMB1,120 per sq.m. to RMB2,230 per sq.m.	The increase in the estimated cost to completion would result in a decrease in fair value
Industrial and ancillary property in Mianyang, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$58,849,000				
Industrial and ancillary property in Hangzhou, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$123,614,000				

15. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

	2017	2016
	HK$'000	*HK$'000*
Carrying amount at 1 January	**119,965**	86,621
Additions	–	41,487
Transfer to investment properties *(note 14)*	–	(2,579)
Disposals	**(21,569)**	–
Exchange realignment	**7,406**	(5,564)
Carrying amount at 31 December	**105,802**	119,965

Up to approval date of these consolidated financial statements, the Group is in the process to obtain the certificates of land use rights.

16. GOODWILL

	2017	2016
	HK$'000	*HK$'000*
Net carrying amount	**465,760**	465,760

During the year ended 31 December 2017, there was no impairment recognised in respect of goodwill (2016:Nil).

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to shallow geothermal energy cash-generating unit for impairment testing.

The recoverable amount of the shallow geothermal energy cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16.86% (2016: 16.04%). The growth rate used to extrapolate the cash flows of the shallow geothermal energy cash-generating unit beyond the five-year period is 3% (2016: 3%).

Assumptions were used in the value in use calculation of the shallow geothermal energy cash-generating unit for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Long term growth rates – The long term growth rates used are based on the average projected inflation rate in the PRC according to the International Monetary Fund.

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17. INVESTMENT IN A JOINT VENTURE

	2017	2016
	HK$'000	*HK$'000*
Share of net assets	**7,578**	6,766

The Group's other receivable balances due from a joint venture are disclosed in note 26 to the financial statements.

Particular of the Group's joint venture is as follows:

Name	Particulars of issued shares	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Zhejiang Wanhe Energy and Technology Co., Ltd.* ("浙江萬合能源環境科技有限公司")	Registered capital of RMB12,779,000	PRC/ Mainland China	47.39	47.39	47.39	Exploration and development of energy resources

* The English name of the company registered in the PRC represents the best efforts of management of the Company in directly translating the Chinese name of the company as no English name has been registered.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2017	2016
	HK$'000	*HK$'000*
Share of the joint venture's profit for the year	**276**	128
Share of the joint venture's other comprehensive income/(loss)	**536**	(728)
Share of the joint venture's total comprehensive income/(loss)	**812**	(600)
Aggregate carrying amount of the Group's investment in the joint venture	**7,578**	6,766

18. INVESTMENTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Share of net assets	**40,112**	36,097
Goodwill on acquisition	**482**	482
	40,594	36,579

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Beijing Ever Hot Pumps Co., Ltd ("BEHP", "北京永源熱泵有限責任公司")	Registered capital of US$300,000	PRC/Mainland China	49	Production and sales of machines and shallow geothermal energy system
Hongyuan shallow ground heat pump technology Co., Ltd.* ("宏源地能熱泵科技有限公司")	Registered capital of RMB50,000,000	PRC/Mainland China	49	Trading of the shallow geothermal energy system
Beijing digital hengyouyuan technology Co., Ltd.* ("北京數碼恒有源科技有限公司")	Registered capital of RMB2,430,000	PRC/Mainland China	49	Computer system service and software development

* The English names of the companies registered in the PRC represent the best efforts of management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

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18. INVESTMENTS IN ASSOCIATES *(Continued)*

BEHP, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of BEHP adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017	2016
	HK$'000	*HK$'000*
Current assets	101,442	73,752
Non-current assets	6,182	7,026
Current liabilities	(48,811)	(26,467)
Non-current liabilities	(720)	(670)
Net assets	58,093	53,641
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	49%	49%
Group's share of net assets of the associate, excluding goodwill	28,466	26,284
Goodwill on acquisition (less cumulative impairment)	482	482
Carrying amount of the investment	28,948	26,766
Revenue	73,796	46,765
Profit for the year	3,397	180
Other comprehensive income	1,055	64
Total comprehensive income for the year	4,452	244
Dividend received	–	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017	2016
	HK$'000	*HK$'000*
Share of the associates' profit for the year	808	395
Share of the associates' other comprehensive income/(loss)	1,025	(777)
Share of the associates' total comprehensive income/(loss)	1,833	(282)
Aggregate carrying amount of the Group's investments in other associates	11,646	9,813

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed equity investments, at fair value	**63,851**	64,286
Unlisted equity investments, at cost	**36,081**	34,003
	99,932	98,289

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

There was a significant decline in the market value of a listed equity investment during the year. The directors consider that such a decline indicates that the listed equity investment has been impaired and an impairment loss of HK$6,189,000 (2016: Nil), which included a reclassification from other comprehensive income of HK$1,907,000 (2016: Nil), has been recognised in the statement of profit or loss for the year.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of HK$36,081,000 (2016: HK$34,003,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

20. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**21,903**	15,335
Finished goods	**19,047**	45,590
	40,950	60,925

21. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	2017 HK$'000	2016 HK$'000
At 1 January	**88,546**	118,688
Exchange realignment	**6,961**	(7,625)
Transfer to investment properties *(note 14)*	**–**	(22,517)
At 31 December	**95,507**	88,546

The above properties held for sale under development are situated in the PRC.

Notes to Financial Statements

As at 31 December 2017

22. AMOUNTS DUE FORM/(TO) CUSTOMERS FOR CONTRACT WORK

	2017	2016
	HK$'000	*HK$'000*
Amounts due from customers for contract work	514,962	317,832
Amounts due to customers for contract work	(12,290)	(12,207)
	502,672	305,625
Contract costs incurred plus recognised profits less recognised losses to date	991,203	543,923
Less: Progress billings	(488,531)	(238,298)
	502,672	305,625

The movements in provision for impairment of amounts due from customers for contract work are as follows:

	2017	2016
	HK$'000	*HK$'000*
At beginning of year	155,845	120,414
Exchange realignment	11,104	(7,040)
Impairment losses recognised, net *(note 6)*	58,678	42,471
	225,627	155,845

During the year ended 31 December 2017, loss on uncertainty in respect of collectability of amounts due from customers for contract work amounting to approximately HK$58,678,000 (2016: HK$42,471,000). These amounts are long outstanding for contract work 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.

23. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	224,805	204,937
Impairment	(74,155)	(59,646)
Trade receivables, net	150,650	145,291
Retention receivables	49,068	82,339
	199,718	227,630
Less: non-current portion	(96,408)	(54,544)
Current portion	103,310	173,086

23. TRADE RECEIVABLES *(Continued)*

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 HK$'000	2016 HK$'000
Within 90 days	77,201	119,074
91 to 180 days	16,739	4,301
181 to 365 days	16,289	18,233
Over 365 days	89,489	86,022
	199,718	227,630

The movements in provision for impairment of trade receivables are as follows:

	2017 HK$'000	2016 HK$'000
At beginning of year	59,646	58,651
Exchange realignment	4,045	(3,770)
Impairment losses recognised *(note 6)*	10,550	9,003
Impairment losses reversed *(note 6)*	(86)	(4,238)
	74,155	59,646

Included in the above provision for impairment of trade receivables is a provision for trade receivables with a carrying amount before provision of HK$74,155,000 (2016: HK$59,646,000).

No individual provision for impairment of trade receivables was included in the above table at 31 December 2017 (2016: Nil).

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	158,905	205,096
Less than one year past due	33,028	22,534
Over one year past due	7,785	–
	199,718	227,630

Notes to Financial Statements

As at 31 December 2017

23. TRADE RECEIVABLES *(Continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Prepayment for rental	8,450	11,731
Prepayment for an investment	171,690	–
Prepayments for others	61,458	34,415
Deposits	20,148	23,736
Other receivables	165,581	96,006
Less: provision for other receivables	(5,009)	(4,658)
	422,318	161,230
Less: non-current portion		
Prepayment for rental	(4,941)	(8,371)
Prepayment for an investment	(171,690)	–
	(176,631)	(8,371)
	245,687	152,859

The movements in provision for impairment of other receivables are as follows:

	2017	2016
	HK$'000	*HK$'000*
At beginning of year	4,658	4,955
Exchange realignment	351	(297)
	5,009	4,658

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK$5,009,000 (2016: HK$4,658,000) with a carrying amount before provision of HK$5,009,000 (2016: HK$4,658,000).

None of the balances, except for individually impaired other receivables above, is either past due or impaired as they relate to balances for whom there was no recent history of default.

25. AMOUNT DUE FROM/(TO) A RELATED COMPANY

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

26. AMOUNTS DUE FROM/(TO) ASSOCIATES AND A JOINT VENTURE

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

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Listed equity investments, at market value	**3,072**	64

The above equity investments at 31 December 2016 and 2017 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

28. CASH AND CASH EQUIVALENTS

	2017	2016
	HK$'000	*HK$'000*
Cash and bank balances	**117,021**	70,119
Cash held at non-bank financial institutions	**4,983**	3,812
Cash and cash equivalents	**122,004**	73,931

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$65,501,000 (2016: HK$43,094,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

29. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 90 days	**161,420**	107,018
91 to 180 days	**33,137**	13,863
181 to 365 days	**27,340**	15,745
Over 365 days	**159,808**	96,910
	381,705	233,536

The trade and bills payables are non-interest-bearing and are normally settled in six months.

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As at 31 December 2017

30. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	*HK$'000*
Accruals	**74,032**	80,828
Deposits	**22,646**	22,325
Advance from customers	**14,156**	5,721
Other payables	**61,238**	65,047
	172,072	173,921
Less: non-current portion	**(9,547)**	(2,823)
	162,525	171,098

Other payables and accruals are non-interest-bearing and have no fixed terms of settlement.

31. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	**6**	**2018**	**89,693**	–	–	–
Non-current						
Bank loans – secured *(note)*	**7**	**2019**	**480,286**	7	2019	446,662
			569,979			446,662

Note: A deemed substantial shareholder of the Company, China Energy Conservation and Environmental Protection Group ("CECEP"), provided a guarantee for the loan , which was borrowed from a subsidiary of CECEP, and the Company agreed to pay a guarantee fee at the rate of 2% per annum on the amount of the loan.

31. INTEREST-BEARING BANK BORROWINGS *(Continued)*

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**89,693**	–
In the second year	**480,286**	–
In the third to fifth years, inclusive	**–**	446,662
	569,979	446,662

The above borrowings are denominated in RMB and have fixed interest rate.

32. DEFERRED INCOME

	2017 HK$'000	2016 HK$'000
At 1 January	**9,804**	8,091
Exchange realignment	**738**	(520)
Government grants received	**–**	2,233
At 31 December	**10,542**	9,804

As at 31 December 2017, government grants of approximately HK$10,542,000 (2016: HK$9,804,000) were designated for certain projects. The amount is stated as non-current liabilities as at 31 December 2017 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 2017.

Notes to Financial Statements

As at 31 December 2017

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	2017 Revaluation of investment properties *HK$'000*
At 1 January 2017	64,035
Deferred tax charged to the statement of profit or loss during the year *(note 10)*	6,307
Exchange realignment	5,383
At 31 December 2017	75,725

Deferred tax assets

	2017 Impairment of trade and other receivables *HK$'000*
At 1 January 2017	26,319
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	1,792
Exchange realignment	2,213
At 31 December 2017	30,324

33. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	2016 Revaluation of investment properties *HK$'000*
At 1 January 2016	63,550
Deferred tax charged to the statement of profit or loss during the year *(note 10)*	4,278
Exchange realignment	(3,793)
At 31 December 2016	64,035

Deferred tax assets

	2016 Impairment of trade and other receivables *HK$'000*
At 1 January 2016	26,890
Exchange realignment	(1,728)
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	1,157
At 31 December 2016	26,319

Deferred tax assets have not been recognised in respect of the following items:

	2017 **HK$'000**	2016 *HK$'000*
Tax losses	**273,109**	260,878

The above tax losses are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$548,945,000 at 31 December 2017 (2016: HK$335,754,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

As at 31 December 2017

34. SHARE CAPITAL

Shares

	2017	2016
	HK$'000	*HK$'000*
Issued and fully paid:		
4,026,925,000 (2016: 2,876,375,000) ordinary shares at US$0.01 each	**313,793**	223,990

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital**
	'000	*HK$'000*
At 1 January 2016	2,891,687	225,184
Shares repurchased	(15,312)	(1,194)
At 31 December 2016 and 1 January 2017	2,876,375	223,990
Rights issue *(note (a))*	1,150,550	89,803
At 31 December 2017	4,026,925	313,793

Note:

(a) A rights issue of two rights shares for every five existing shares held by members on the register of members was completed on 18 July 2017, at an issue price of HK$0.10 per rights share, resulting in the issue of 1,150,550,000 shares for a total cash consideration, before expenses, of HK$115,055,000.

35. SHARE OPTION SCHEME

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

Share Option Scheme 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 Scheme 2001 and adopted a new share option scheme (the "Share Option Scheme 2010"). The Share Option Scheme 2010 will remain in force for a period of ten years commencing from the date of adoption.

Under the Share Option Scheme 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 exercise of all options to be granted under the Share Option Scheme 2010 and any other share option schemes 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 has been obtained.

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 Scheme 2010 and any other share option 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.

Notes to Financial Statements

As at 31 December 2017

35. SHARE OPTION SCHEME *(Continued)*

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

Share Option Scheme 2010 *(Continued)*

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	Before adjusted HK$0.426
		9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	After adjusted HK$0.379
		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$0.426
		6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	
Grant 3	11 August 2014	N/A*	11 August 2014 to 10 August 2016	HK$0.455
		11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	
Grant 4	8 December 2016	N/A*	8 December 2016 to 31 December 2020	Before adjusted HK$0.300
		8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	After adjusted HK$0.267
		8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	

* 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.

As disclosed in note 34, a rights issue of two rights shares for every five existing shares held by members on the register of members was completed on 18 July 2017, the exercise price and the number of shares have been adjusted, respectively.

35. SHARE OPTION SCHEME *(Continued)*

Share Option Scheme 2010 *(continued)*

The following tables disclose movements of the Company's share options held by employees (including directors of the Company) during the years:

Year ended 31 December 2017

Date of grant	Outstanding at 1 January 2017	Adjusted during the year	Outstanding at 31 December 2017
Directors			
9 September 2010	30,100,000	3,695,445	33,795,445
8 December 2016	71,600,000	8,790,495	80,390,495
	101,700,000	12,485,940	114,185,940
Employees			
9 September 2010	115,288,000	14,154,171	129,442,171
8 December 2016	216,032,000	26,522,740	242,554,740
	331,320,000	40,676,911	371,996,911
	433,020,000	53,162,851	486,182,851
Exercisable at the end of year			364,905,481
Weighted average exercise price	HK$0.342		HK$0.305

Notes to Financial Statements

As at 31 December 2017

35. SHARE OPTION SCHEME *(Continued)*

Share Option Scheme 2010 *(Continued)*

Year ended 31 December 2016

Date of grant	Outstanding at 1 January 2016	Granted during the year	Lapsed during the year	Outstanding at 31 December 2016
Directors				
9 September 2010	30,100,000	–	–	30,100,000
11 August 2014	21,484,000	–	(21,484,000)	–
8 December 2016	–	71,600,000	–	71,600,000
	51,584,000	71,600,000	(21,484,000)	101,700,000
Employees				
9 September 2010	116,280,000	–	(992,000)	115,288,000
11 August 2014	156,520,000	–	(156,520,000)	–
8 December 2016	–	216,032,000	–	216,032,000
	272,800,000	216,032,000	(157,512,000)	331,320,000
Others				
11 August 2014	62,000,000	–	(62,000,000)	–
	386,384,000	287,632,000	(240,996,000)	433,020,000
Exercisable at the end of year				216,988,000
Weighted average exercise price	HK$0.444	HK$0.300	HK$0.455	HK$0.342

The Group recognised a share option expense of approximately HK$9,546,000 for the year ended 31 December 2017 (2016: HK$5,309,000) in relation to share options granted by the Company.

At the end of the reporting period, the Company had 486,182,851 share options outstanding under the Share Option Scheme 2010. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 486,182,851 additional ordinary shares of the Company and additional share capital of approximately HK$38,005,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 486,182,851 share options outstanding under the Share Option Scheme 2010, which represented approximately 12.1% of the Company's shares in issue as at that date.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) Statutory reserve

In accordance with the relevant regulations in the PRC 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.

(b) Contributed surplus

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

(c) Special reserve

Special reserve represents the reserve arising from acquisition of non-controlling interests.

(d) Capital reserve

Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes and the fair value changes in available-for-sale investments.

Notes to Financial Statements

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37. DISPOSAL OF SUBSIDIARIES

	Notes	2017 HK$'000
Net assets disposed of:		
Property, plant and equipment	13	339
Inventories		19,407
Cash and cash equivalents		2,082
Trade receivables		680
Other payables and accruals		(8,926)
Trade and bills payables		(19,571)
Tax payable		(9,346)
Non-controlling interests		15,421
		86
Gain on disposal of subsidiaries	5	24,236
Satisfied by:		
Cash		24,322

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2017 HK$'000
Cash consideration	24,322
Cash consideration not received and included in prepayments, deposits and other receivables	(2,236)
Cash and cash equivalents disposed of	(2,082)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	20,004

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Amount due to a related company HK$'000	Amount due to a joint venture HK$'000	Interest-bearing bank borrowings HK$'000
At 1 January 2017	–	1,393	446,662
New bank borrowings	–	–	215,529
Accrual of guarantee fee	11,203	–	–
Repayment to a joint venture	–	(1,393)	–
Repayment of bank borrowings	–	–	(125,836)
Exchange realignment	–	–	33,624
At 31 December 2017	11,203	–	569,979

39. CONTINGENT LIABILITIES

At 31 December 2017, the Group did not have any contingent liabilities not disclosed in the financial statements (2016:Nil).

40. PLEDGE OF ASSETS

At 31 December 2017, the Group did not have any pledged assets (2016: Nil).

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its part of the buildings and 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 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**9,534**	10,642
In the second to fifth years, inclusive	**37,892**	45,021
After five years	**126,119**	155,653
	173,545	211,316

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twelve years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**4,367**	3,640
In the second to fifth years, inclusive	**3,566**	2,338
After five years	**–**	946
	7,933	6,924

Notes to Financial Statements

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42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 *HK$'000*	2016 *HK$'000*
Contracted, but not provided for:		
Investment properties under construction	**28,156**	61,302
Acquisition of an available-for-sale investment	**240**	223
Capital contributions payable to an associate	**22,453**	20,881
	50,849	82,406

43. RELATED PARTY TRANSACTIONS

(a) Amounts due from/to a related company, a joint venture, and associates are included in the consolidated statement of financial position. Further details are given in notes 25 and 26 to the financial statements. Besides, details of bank borrowings with a related party are set out in note 31 to the financial statements.

(b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2017 *HK$'000*	2016 *HK$'000*
Associates:			
Sales of products	*(i)*	–	18,748
Purchases of products	*(ii)*	**117,819**	31,338
Rental income	*(iii)*	**154**	210
Other related parties:			
Sales of products*	*(iv)*	**1,073**	1,507
Deposit cash*	*(v)*	**6**	5
Rental expense*	*(vi)*	**47**	55
Guarantee fee*	*(vii)*	**11,203**	–

43. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) The Group sold goods to an associate.

(ii) The Group purchased goods from associates.

(iii) The Group charged rental income to an associate.

(iv) The Group sold goods to a subsidiary of CECEP.

(v) The Group entered into a financial service agreement with a subsidiary of CECEP and an outstanding deposit balance was HK$6,000 at 31 December 2017 (2016: HK$5,000).

(vi) The Group paid a rental expense to a related party.

(vii) The Group had a guarantee fee payable to CECEP. Details are given in note 31.

* The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

(c) Compensation of key management personnel of the Group:

	2017	2016
	HK$'000	*HK$'000*
Short term employee benefits	**12,802**	10,767
Pension scheme contributions	**253**	52
Equity-settled share option expense	**1,547**	4,965
Total compensation paid to key management personnel	**14,602**	15,784

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

Notes to Financial Statements

As at 31 December 2017

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Held for trading *HK$'000*	Loans and receivables *HK$'000*	Available–for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	99,932	99,932
Financial assets included in prepayments, deposits and other receivables	–	180,720	–	180,720
Amount due from a joint venture	–	202	–	202
Trade receivables	–	199,718	–	199,718
Equity investments at fair value through profit or loss	3,072	–	–	3,072
Cash and cash equivalents	–	122,004	–	122,004
	3,072	502,644	99,932	605,648

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	381,705
Financial liabilities included in other payables and accruals	135,270
Amount due to associates	18,644
Amount due to a related company	11,203
Interest-bearing bank borrowings	569,979
	1,116,801

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

2016

Financial assets

	Held for trading *HK$'000*	Loans and receivables *HK$'000*	Available–for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	98,289	98,289
Financial assets included in prepayments, deposits and other receivables	–	115,084	–	115,084
Amount due from a related company	–	526	–	526
Amounts due from associates	–	6,474	–	6,474
Trade receivables	–	227,630	–	227,630
Equity investments at fair value through profit or loss	64	–	–	64
Cash and cash equivalents	–	73,931	–	73,931
	64	423,645	98,289	521,998

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	233,536
Financial liabilities included in other payables and accruals	145,875
Amount due to a joint venture	1,393
Interest-bearing bank borrowings	446,662
	827,466

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45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Trade receivables, non-current portion	**96,408**	54,544	**96,408**	54,544
Available-for-sale investments	**63,851**	64,286	**63,851**	64,286
Equity investments at fair value through profit or loss	**3,072**	64	**3,072**	64
	163,331	118,894	**163,331**	118,894
Financial liabilities				
Interest-bearing bank borrowings	**569,979**	446,662	**586,591**	480,112
	569,979	446,662	**586,591**	480,112

Management has assessed that the fair values of cash and cash equivalents, the current portion of trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to a related company, a joint venture and associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings and trade receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments cannot be measured realiably because they do not have quoted market prices in an active market and the range of reasonable fair value estimates is so significant.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale investments	**63,851**	–	–	**63,851**
Equity investments at fair value through profit or loss	**3,072**	–	–	**3,072**
	66,923	–	–	**66,923**

As at 31 December 2016

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	64,286	–	–	64,286
Equity investments at fair value through profit or loss	64	–	–	64
	64,350	–	–	64,350

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2017 (2016: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

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45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: *(Continued)*

Assets for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Trade receivables, non-current portion	–	**96,408**	–	**96,408**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables, non-current portion	–	54,544	–	54,544

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: *(Continued)*

Liabilities for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Interest-bearing bank borrowings	**–**	**586,591**	**–**	**586,591**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	–	480,112	–	480,112

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As at 31 December 2017

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank loans, available-for-sale investments and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's long term debt obligations carry a fixed interest rate and the Group has no risk in respect of change in interest rate.

Foreign currency risk

The Group's subsidiaries in the PRC transacted in RMB, and the Company and other subsidiaries mainly transacted in HK$. Management considers the Group's exposure to foreign currency risk is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from a related company, associates and a joint venture and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2017			
	On demand	**Within One year**	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Interest-bearing bank borrowings	**–**	**126,724**	**503,866**	**630,590**
Trade and bills payables	**–**	**381,705**	**–**	**381,705**
Other payables and accruals	**135,270**	**–**	**–**	**135,270**
Amount due to a related company	**11,203**	**–**	**–**	**11,203**
Amounts due to associates	**18,644**	**–**	**–**	**18,644**
	165,117	**508,429**	**503,866**	**1,177,412**

	2016			
	On demand	Within One year	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	–	31,266	509,366	540,632
Trade and bills payables	–	233,536	–	233,536
Other payables and accruals	145,875	–	–	145,875
Amount due to a joint venture	1,393	–	–	1,393
	147,268	264,802	509.366	921,436

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As at 31 December 2017

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017	2016
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	**569,979**	446,662
Trade and bills payables	**381,705**	233,536
Financial liabilities included in other payables and accruals	**135,270**	145,875
Less: Cash and cash equivalents	**(122,004)**	(73,931)
Net debt	**964,950**	752,142
Equity attributable to owners of the parent	**1,627,210**	1,395,847
Capital and net debt	**2,592,160**	2,147,989
Gearing ratio	**37%**	35%

47. COMPARATIVE AMOUNTS

The Group classified part of its long-term trade receivables as non-current in accordance with the nature of the contracts and their terms. Accordingly, comparative amounts of trade receivables have been reclassified to conform with the current year's presentation and disclosures. The reclassification did not have any significant impact on the Group's financial statements for the year ended 31 December 2017.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017	2016
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**836,134**	836,134
Total non-current assets	**836,134**	836,134
CURRENT ASSETS		
Due from subsidiaries	**489,451**	426,876
Prepayments, deposits and other receivables	**1,888**	1,484
Cash and cash equivalents	**41,136**	8,037
Total current assets	**532,475**	436,397
CURRENT LIABILITIES		
Due to subsidiaries	**3,200**	7,316
Other payables and accruals	**–**	2,310
Total current liabilities	**3,200**	9,626
NET CURRENT ASSETS	**529,275**	426,771
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,365,409**	1,262,905
Net assets	**1,365,409**	1,262,905
EQUITY		
Share capital	**313,793**	223,990
Other reserves *(note)*	**1,051,616**	1,038,915
Total equity	**1,365,409**	1,262,905

Notes to Financial Statements

As at 31 December 2017

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

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Contributed surplus HK$'000	Treasury shares HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	875,684	154,381	(3,293)	51,142	32,235	(61,434)	1,048,715
Total comprehensive loss for the year	–	–	–	–	–	(14,173)	(14,173)
Share repurchased	(4,229)	–	3,293	–	–	–	(936)
Equity-settled share option arrangements	–	–	–	5,309	–	–	5,309
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	(19,968)	–	19,968	–
At 31 December 2016 and 1 January 2017	871,455	154,381	–	36,483	32,235	(55,639)	1,038,915
Issue of shares	25,252	–	–	–	–	–	25,252
Share issue expenses	(2,857)	–	–	–	–	–	(2,857)
Total comprehensive loss for the year	–	–	–	–	–	(19,240)	(19,240)
Equity-settled share option arrangements	–	–	–	9,546	–	–	9,546
At 31 December 2017	893,850	154,381	–	46,029	32,235	(74,879)	1,051,616

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

Five-Year Financial Summary

A summary of the published results and the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, are set out below.

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**778,153**	619,053	319,354	283,601	363,662
Cost of sales and services	**(614,244)**	(508,454)	(199,621)	(196,314)	(275,193)
Gross profit	**163,909**	110,599	119,733	87,287	88,469
Gross profit margin	**21%**	**18%**	**37%**	**31%**	**24%**
Profit/(loss) before tax	**16,023**	(9,524)	(22,959)	(19,293)	155,249
Income tax expense	**(12,061)**	(22,105)	(25,147)	(29,666)	(55,949)
Profit/(loss) for the year	**3,962**	(31,629)	(48,106)	(48,959)	99,300
Attributable to:					
Owners of the parent	**10,533**	(30,816)	(47,506)	(53,506)	101,810
– Non-controlling interests	**(6,571)**	(813)	(600)	4,547	(2,510)
Earnings/(loss) per share					
– Basic (HK cents)	**0.30**	(1.07)	(1.64)	(1.84)	3.51
– Diluted (HK cents)	**0.30**	(1.07)	(1.64)	(1.84)	3.50

CONSOLIDATED ASSETS AND LIABILITIES

	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	1,974,571	1,656,826	1,444,067	1,353,775	1,333,622
Current assets	1,125,694	874,243	1,137,731	1,265,072	1,361,674
Current liabilities	(837,135)	(566,443)	(984,091)	(428,756)	(422,895)
Net current assets	288,559	307,800	153,640	836,316	938,779
Total assets less current liabilities	2,263,130	1,964,626	1,597,707	2,190,091	2,272,401
Non-current liabilities	(576,100)	(523,324)	(77,256)	(580,560)	(591,831)
Net assets	1,687,030	1,441,302	1,520,451	1,609,531	1,680,570
Total debt to equity ratio	0.83	0.76	0.70	0.63	0.61

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	Anticipated completion
Building						
No. 102 Xingshikou Road, Haidian District, Beijing, the PRC	5,628.82	100%	Office and industrial	Medium	Completed	–
Investment property						
No. 6, Zhuantang Science and Technology Economic Zone, Zhuantang Jiedao, Xihu District, Hangzhou City, Zhejiang Province, the PRC	32,798.00	100%	Office and industrial	Medium	Completed	–
Investment property under construction and development						
Xianyuwan Village, Xianyuwan Town, Wafangdian City, Dalian, Liaoning Province, the PRC	173,289.00	100%	Residential	Medium	Planning in progress	December 2020