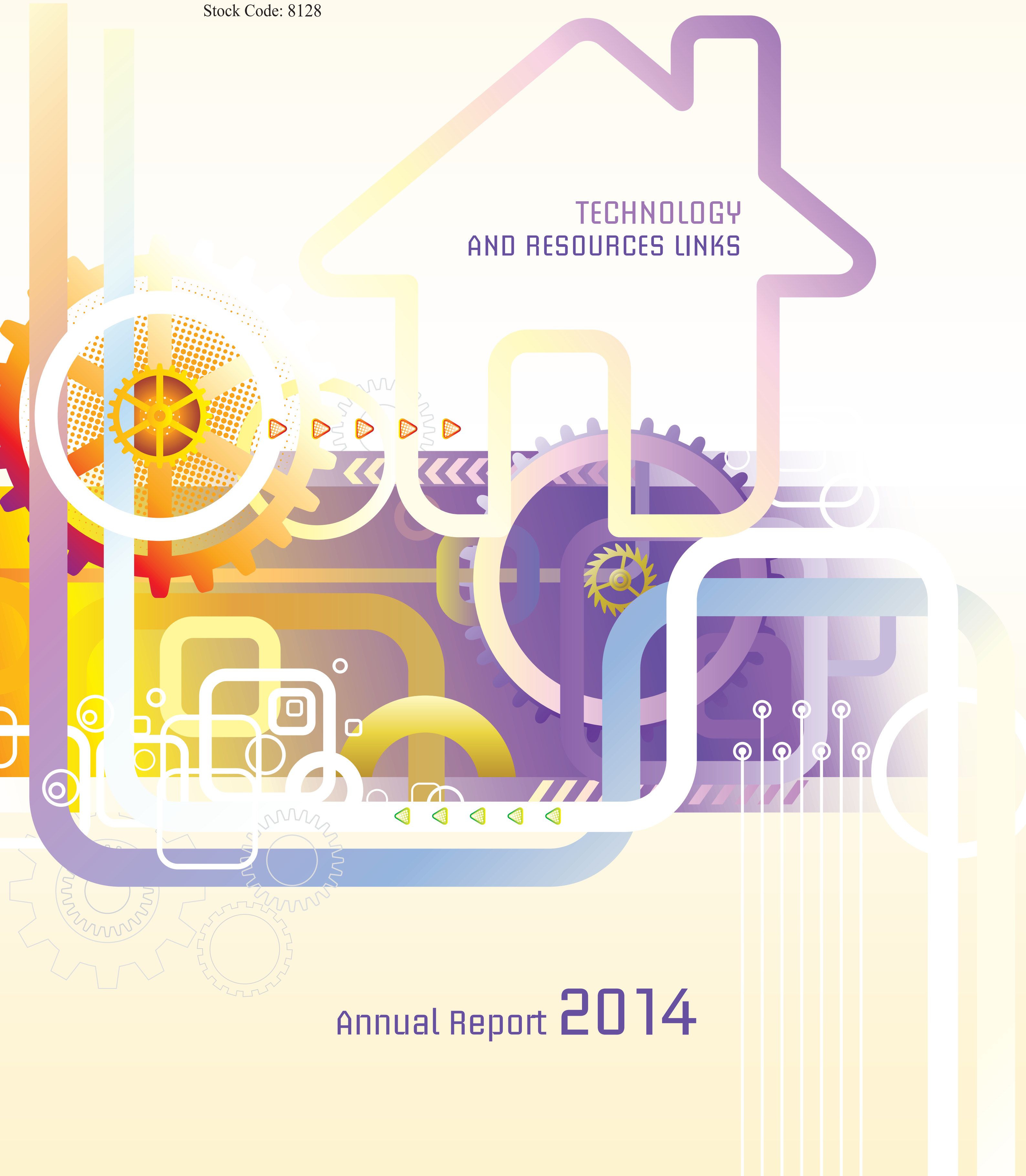
中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



TECHNOLOGY
AND RESOURCES LINKS

Annual Report 2014

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This report, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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.

Contents

BOARD OF DIRECTORS

Executive directors
Zheng Qiyu
Chan Wai Kay Katherine
Xu Shengheng
Zang Yiran

Non-executive directors
Zhao Youmin
Daiqi

Independent non-executive directors
Zhang Honghai
Jia Wenzeng
Wu Desheng

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Wong Lai Yuk

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Zhang Honghai
Wu Desheng

REMUNERATION COMMITTEE
Zhang Honghai *(Chairman)*
Zheng Qiyu *(Deputy Chairman)*
Xu Shengheng
Jia Wenzeng
Wu Desheng

NOMINATION COMMITTEE
Zheng Qiyu *(Chairman)*
Zhao Youmin *(Deputy Chairman)*
Zhang Honghai
Jia Wenzeng
Wu Desheng

AUTHORISED REPRESENTATIVES
Xu Shengheng
Wong Lai Yuk

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STOCK CODE
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COMPANY WEBSITE
www.cgsenergy.com.hk

Chairman's Statement

Dear shareholders,

On behalf of the board of directors ("the Board") of China Ground Source Energy Industry Group Limited ("the Company"), I am pleased to report to all the shareholders on the final results of the Company and its subsidiaries (collectively referred to as "CGSE" or the "Group") for the year ended 31 December 2014 ("the Review Period").

In recent years, the original technology of the Group, i.e., the shallow ground source energy collection technology, has achieved industrialized development in providing heating for buildings in a combustion-free and zero-emission way. The technology has provided a radical solution to eliminate smog that is resulted from heating production with fossil energy burning. As such, it is of great significance for China to pursue its goal of reducing fossil energy consumption to ease energy shortage, environment pollution and traffic pressure; promoting harmonious coexistence between human and nature; and expediting the construction of resource conservative and environment friendly society. Therefore, shallow ground source energy heating industry enjoys enormous market in China. It is estimated that by 2020, building areas heated with shallow ground source energy will reach to 3.25 billion m^2. Booming season for the industry has arrived and the Group is fully prepared to embrace the great season.

In the past one year, as a result of macroeconomic policy, the realty estate industry in Chinese mainland was persistently depressed. Affected by it, the business performance of the Company in the Review Period was lower than expected. During the Review Period, the Company's revenue was approximately HK$283,601,000, lowered by 22% over the same period of previous year. The decrease was a result of overall economic situation in China and also the strategic adjustment undergone by the Company in the year. Sticking to its development strategy of promoting growth in the new industry of integrated heating and cooling with shallow ground source energy, the Company has been actively improving its internal organization structure, perfecting its allocation of resources and pioneering new modalities of marketing. Priority areas have been moved from undertaking individual projects towards promoting cooperative projects in districts or regions. As such, project realization takes longer time than before. In addition, marketing of the Ground Energy Heating Device, as a newly invented product series of the Company is still at the initial stage and would take some time to acquire recognition and acceptance by market and potential users. The marketing effect remains to be shown. Due to increased financial cost and lowered revenue, the Company recorded a loss of approximately HK$48,959,000 in the Review Period.

In the just-concluded year of 2014, under our concerted efforts and with close cooperation with local government, the first distributed heating and cooling station of the Group will be set up in Dalian, which is designed with the capacity to provide heating and cooling services for 15 million m^2 building areas. This is also the largest application project of ground source energy in China and the world at large. It is believed that the project will stand as a good show case of the combustion-free heating system using ground source energy and will convince government decision makers and the general public with tangible facts of the effectiveness and pragmatic advantages of the system.

Looking into 2015, we are soberly aware that there will be difficulties and problems, challenges and opportunities ahead. The Company will accelerate its pace in adapting to the new normal of "innovation driven" and "low-carbon development" to seize development opportunities of the era and keep up with industrial development trend. Efforts will be reinforced by the Company in technology escalation, products innovation, market promotion and service optimization. By consolidating each step and opening its strides, the Company will forcefully push forward the application of shallow ground source energy for building heating to realize great leap forward in the new industry of integrated combustion-free heating and cooling with ground source energy.

Taking this opportunity, I would like to express sincere thanks to all the staffs and board members for their contribution and efforts, and great appreciations to our clients, business partners and shareholders for continuous support to the Group.

Sincerely,

Zheng Qiyu
Chairman
Hong Kong, 23 March 2015

FINANCIAL REVIEW

The Group's loss attributable to shareholders for the year ended 31 December 2014 was HK$53.506 million on a revenue of HK$283.601 million, compared with a profit of HK$101.81 million on a revenue of HK$363.662 million for the year ended 31 December 2013.

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 2014 and the year ended 31 December 2013.

	Year ended 31 December 2014		Year ended 31 December 2013	
	HK$'000	*%*	*HK$'000*	*%*
Revenue:				
– Shallow ground source energy	**268,471**	**95**	354,285	97
– Properties investment	**15,130**	**5**	9,377	3
Total revenue	**283,601**	**100**	363,662	100

OPERATION RESULTS

Total revenue from operations for the year ended 31 December 2014 was approximately HK$283.601 million, as compared with HK$363.662 million for the year ended 31 December 2013. Revenue from the traditional shallow ground source energy utilisation systems has declined during the year due to the continued downturn in the real estate industry; the ongoing projects also have delayed. In addition, the Group was focusing on improving product and new product development, and actively developed a series of Ground Source Heating Devices, but the products have not yet developed to be widely accepted by the market and recognised as revenue. Furthermore, the Group's marketing strategy in respect of the industrial park driving the shallow ground source heat pump system has not been fully reflected yet, and hence the revenue and work done were deferred. Thus, the revenue declined.

During the year ended 31 December 2014, the Group recorded net loss of approximately HK$48.959 million compared with a profit of approximately HK$99.3 million for the year ended 31 December 2013. The decrease in net profit was primarily due to (i) the decrease in revenue; (ii) the significant increase in finance costs caused by the increase in interest expense on borrowings; and (iii) the absence of a one-off gain on the disposal of a portion of the investment properties in Beijing recorded in last year.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2014 was approximately HK$87.287 million or, represented 30.8% of the revenue (2013: HK$88.469 million, represented 24.3% of the revenue). In order to ensure all the new projects meeting the new standards of The Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well which became effective on 1 April 2013, the Group committed to provide free modification, installation and testing of the customers' shallow ground source energy collection equipment in last year so as to optimizing/improving of the customers' shallow ground source energy utilisation system which was attributable to the increase in costs of sales in last year. Furthermore, less provision was made for the amounts due from customers for contract work in view of the uncertainty on the collectability as compared with last year, and thus the gross profit margin increased.

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year decreased by approximately HK$6.289 million, or 21% as compared with that of the year ended 31 December 2013. In order to ensure the completed projects to meet the new standards, the Group committed to provide a one-off free modification, installation and testing of the customers' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow ground source energy utilisation system during the year ended 31 December 2013, thereby enhancing the promotional effect. Excluding this one-off impact in last year, thus the selling and distribution expenses dropped in this year.

Administrative expenses amounted to approximately HK$97.81 million and HK$115.221 million for the years ended 31 December 2014 and 31 December 2013 respectively. The decrease in administrative expenses as compared with last financial reporting period was mainly due to the decrease in research costs for the new standard in 2013 and the absence of a one-off compensation paid to a related company in last year.

During the year, the Group granted 282,000,000 shares of share options to directors, officers, employees and business partners, resulting in share-based payments of HK$16.865 million during the year ended 31 December 2014.

SEGMENTAL INFORMATION

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

Shallow Ground Source Energy

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

(1) licensing of patented products and proprietary technology;

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

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

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

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

Securities Investment and Trading

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

Properties Investment and Development

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

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

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2014 was approximately HK$836.316 million (2013: approximately HK$938.779 million). As at 31 December 2014, the Group had cash and bank balances of approximately HK$329.235 million (2013: approximately HK$541.93 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2014, no group assets have been charged (2013: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong dollars or Renminbi to minimize exposure to foreign exchange risks. As at 31 December 2014, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank loans) to the equity (including all capital and reserves) of the Group, increased to 31.9% as at 31 December 2014 (2013: 31.2%). The gearing ratio was maintained at similar level as compared with last year.

EMPLOYEES

As at 31 December 2014, the Group has approximately 600 employees (2013: approximately 510). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

SHARE OPTION SCHEMES

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. The detailed disclosures relating to the Company's share option scheme are set out in note 43 to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at 31 December 2014, 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 dividend for the year ended 31 December 2014 (2013: HK0.5 cents per share).

Management Discussion and Analysis

CAPITAL STRUCTURE

On 29 July 2014, options were exercised to subscribe for 1,500,000 shares in the Company at a consideration of HK$639,000 of which HK$117,000 was credited to share capital and the balance of HK$522,000 was credited to the share premium. All the issued shares rank pari passu with the existing shares.

During the year ended 31 December 2014, 8,560,000 shares were repurchased by the Company and were subsequently cancelled on 28 January 2015. As at 31 December 2014, the total number of issued ordinary shares of the Company was 2,904,327,117 shares, including those repurchased shares.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

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

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

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

MAJOR ACQUISITIONS AND DISPOSALS

On 31 December 2014, an agreement was entered into between the Group, a vendor, Hong Kong Goodway International Holdings Limited and a guarantor, Mr. Chen Zaixian, pursuant to which the Group has conditionally agreed to purchase and the vendor have conditionally agreed to sell 100% equity interest of Goodway (Hangzhou) Biotechnology Ltd. ("Hangzhou Goodway"), indirectly acquire the land and building held by Hangzhou Goodway, for the consideration of RMB93,000,000 (equivalent to approximately HK$116,250,000), which shall be satisfied by cash. Up to the date of this report, the acquisition is yet to be completed.

The Group acquired the remaining 62.03% equity interest in Ever Source Investment Management Company Limited ("Ever Source Investment") for a cash consideration of RMB49,000,000 (equivalent to approximately HK$61,590,000). The acquisition has been accounted for using the acquisition method. Ever Source Investment is engaged in business planning, consulting and management services and promotion, and becomes a wholly-owned subsidiary of the Group since then. Ever Source Investment has a wholly-owned subsidiary, 北京京豐恒有源熱力科技有限公司 (collectively referred to as the "Ever Source Investment Group"). Ever Source Investment Group is engaged in the management of heating and cooling system for buildings with the application of geothermal energy in the PRC. Ever Source Investment Group was acquired to act as investment platform for the future expansion of the Group's operations. Details of the acquisition transaction is set out in note 41 to the consolidated financial statements of this report.

Save as the disclosed above, other acquisitions and disposals during the year are set out in note 41 to the consolidated financial statements of this report.

BUSINESS REVIEW AND OUTLOOK

China Ground Source Energy Industry Group Limited ("CGSE") concentrates on advancing R&D in using shallow ground source energy as substitute energy to produce heating for buildings, pushes forward industrialization of its original technology in collecting shallow ground source energy and devotes to upgrading and transforming the traditional combustion-based heating sector into an emerging industry of integrated heating and cooling with ground source energy. CGSE also works actively with local governments to execute their duties as the first persons responsible for environment protection and energy saving in an effort to solidify ecological construction results. It is acknowledged that accelerated application of shallow ground source energy in producing combustion-free heating for buildings is an effective way to curb smog.

In 2014, CGSE in cooperation with peer institutions has carried out in-depth research on market potentials of using shallow ground source energy as substitute energy for heating. In the northern part of China, heating for buildings is a civil necessity. With constantly enhancing living standards, heating will be needed in more than 65% areas of China. In recent years, the collection technology of shallow ground source energy which is originated in China has achieved wide industrialization, being a substitute energy to provide smart heating free of combustion and local emission. Wider application of the smart heating system will help to boost the emerging industry of integrated heating and cooling with shallow ground source energy. Such application can help to eradicate the root cause of smog resulted from fossil-burning for heating in a way that incurs no additional building cost in constructions. Being effective in reducing consumption of fossil energies for buildings heating which takes more than 8% of China's total energy consumption, the technology plays a significant role in easing energy tension, environment pollution and traffic pressures, as well as promoting harmony and coexistence of people and the nature. As such, it can also help to speed up construction of an energy-saving and environment-friendly society.

I. Business Review

1. *With the most buildings in the world, China provides enormous development potential for the emerging industry of integrated and combustion-free heating and cooling with shallow ground source energy*

Currently, building areas in China exceed 50 billion m^2. During 2004-2013, the area of increased constructions was about 27.8 billion m^2. It is estimated that additional increase of building areas in the upcoming 5 years will reach to 10 billion. Supposing 50% of building areas requires heating, there will be 25 billion m^2 heating areas in China. Supposing 5% of existing buildings and 40% of the future additional buildings uses shallow ground source energy to acquire combustion-free heating, areas heated by shallow ground source energy can reach to 3.25 billion m^2 and its potential market stands at RMB1 trillion. Compared with heating with electrical boilers, heating with shallow ground source energy will realize an annual save of 316.875 billion kw/h electricity and 110.9063 million tons standard coal equivalent (SCE), and an annual reduction of 277.2658 million tons CO_2, 4.8017 million tons participles, 2.6396 million tons SO_2 and 1.9194 million tons NOx. It equals to a virtue power plant with capacity of 188.5GW and saves investment capital of RMB747.5 billion yuans in fire power plants. In 25-year accumulative statistics, heating with shallow ground source energy outstands heating with electrical boiler by realizing better economic and social performances, as it registers a save of electricity by 7.92 trillion kw/h and 2.77 billion tons SCE, and reduction of CO_2 by 6.93 billion tons, participles by 120 million tons, SO_2 by 65.99 million tons and NOx by 47.985 million tons.

2. ***A new industry of integrated system that uses shallow ground source energy to provide heating and cooling for buildings in a smart and combustion-free way has come into being.***

(1) The single-well energy collection technology as an original technology is becoming more and more sophisticated. As early as 2013, the National Development and Reform Committee (NDRC) submitted a report to Li Keqiang (then the Vice Premier) and Wang Qishan (then Member of the Standing Committee of the Political Bureau) on how to promote development and application of the single-well shallow ground source energy collection system (NDRC-NO. 2013-161). Up to now, building areas heated by shallow ground source energy collected via the original technology of single-well system and the imported technology of buried pipe system has reached to nearly 100 million m^2.

To promote application of smart and combustion-free heating technology with shallow ground source energy, CGSE has developed a series of products that are compatible with traditional combustion heating systems. The products series include Distributed Ground Energy Station for Heating and Cooling that serves the purpose similar to traditional urban heating system, Ground Energy Heat Pump Environmental System that can provide heating for designated areas just like local boilers do, and Ground Energy Heating Devices for independent use by rural households. With the products series, the Group acquires all-round solutions to saturate diverse needs and achieve combustion-free smart heating with shallow ground source energy.

(2) Different from traditional deep geothermal energy, shallow ground source energy is a natural resource that is ubiquitous, renewable and recyclable.

Heat exists from one meter underneath the earth surface, though it is very low grade. In the history, when application products were not invented yet, people tried to use the low-grade heat by digging holes underground. (eg: both underground potato cellar in North China and cave houses in Yan'an are examples for direct utilization of ground energy by ancestors). Now with the products and systems being developed, the low-grade shallow ground heat under 25°C can be collected and then upgraded by heat pumps consuming a small amount of electricity, and therefore used to provide fire-free heating for buildings. Throughout a year, the inside temperature of buildings heated by the system can be controlled within 16-26°C. Shallow ground source energy accompanied by heat pump technology manifests a good combination of energy and product, which will contribute greatly in promoting people civilization and social progress.

Shallow ground source energy (under 25°C) being a ubiquitous, renewable and recyclable natural resource is very different from traditional deep geothermal energy (above 25°C). The shallow geo-energy contained within 110 meters underground in land rock and soil (excluding those in waters and seas) is a result of continuous intake of heat from the earth's core and the sun, with its total reserve going to over 1000 times more than that is needed for heating all the existing buildings of 50 billion m^2.

The total cost of using shallow ground source energy to provide smart and combustion-free heating for buildings is by and large the same as the cost of using traditional energy resource, including initial cost and operational cost. Add on that, the shallow ground source energy system is more secure, reliable, user-friendly and technologically measurable.

II. The year of 2014 witnessed further improvement in the development strategy of the shallow ground source heating (cooling) system and increased solidification on the industrialization of the new sector.

With the similarly good virtues as traditional burning-based heating, i.e., being reliable and secured, the technology system further ensures and reinforces the effective utilization of shallow ground source energy to provide smart and combustion-free heating (cooling) for designated regions and districts, by setting up regional centers for operation maintenance and experience demonstration. To ensure progressive development of regional market expansion and continuous growth of the emerging industry, industrial parks featuring regional integrated heating and cooling with ground source energy are being constructed.

1. *Industrial Bases are set up to cover both South and North China*

In north China, Dalian as a compulsory area required for heating in winters by Chinese government is located as the northern industrial base for the Group. By now, the Dalian Ground Energy Heating Company has been set up together with a distributive station for ground source energy heating and cooling with a capacity of 900MW. The government of the Jinzhou New Development Zone has authorized the Group with exclusive rights in providing heating, cooling and domestic hot water for the Xiaojiaowan International Business District which takes up 20.4 km^2 land area and boosts 15 million m^2 floorages. This project is the very first city-wide heat service project that purely relies on shallow ground source energy as substitute energy for heating. It is therefore going to be established as a "National – level Demonstration Base of Heating with Ground Source Energy".

In South China, the Group locates its industrial base in the city of Mianyang known as a scientific city of China and a southern city with cold winters and hot summers. While constructing a 300,000 m^2 demonstration area for ground source energy heating and cooling, the industrial base also fully utilizes its local advantages in science, technologies and manufacturing industry to produce the integrated devices for heating and cooling invented by CGSE. It also stands as a production and processing base specialized in manufacturing and market promotion of the Ground Energy Heating Devices for rural household independent heating.

2. *Priority areas for the development of integrated heating and cooling with ground source energy.*

CGSE has signed contracts with 15 local county or urban governments in compulsory heating areas including Beijing, Liaoning and Hebei and non-compulsory heating provinces such as Sichuan, Henan, Jiangsu, Zhejiang and Hubei. These contracts enable the Group to establish local industrial bases, promote its technology system and supply smart combustion-free heating. In addition, the Group flagged its regional development strategy with priorities in areas around the three ways, one river and one upstream.

1) Three ways: areas along major air ways, express railways, and high-speed express way;

2) One river: areas along the Yangzi River with cold winter and hot summer;

3) One upstream: areas in the upstream of the Yellow River that is sensitive in water resource conservation.

3. *CGSE has set up after-sale service and experience demonstration centers for shallow ground source energy heating (cooling) systems, started innovative engineering for regional decision-makers, and launched the marketing strategy of smart and green heating ideology.*

4. ***CGSE has been improving its technology systems and promoting development of the emerging industry. Efforts have been strengthened to fully tap the advantages of the modern business modality based on internet, in order to better saturate the industrial need for effective products in providing integrated heating and cooling with ground source energy.***

1) The mobile internet platform of the Group has entered into test operation stage. Formal operation will start on May 3rd. By then, renewal of web news, interaction through mobile terminals and project management will all be carried out via this mobile platform.

2) A series of key products have been developed to promote growth of integrated heating and cooling industry. (see the following tables for detail)

Catalogue on Products Series for integrated heating and cooling with ground source energy in a smart and combustion-free way:

Table 1: Smart Heating Systems and Ground Source Energy Collection Modes

Combustion-free heating system	In contrast to traditional heating methods	Coverage areas	Collection Mode
5-900MW Distributed Heating and Cooling Stations	Urban concentrated heating	≤15 million m2	Single well heat exchange system
Ground Energy Heat Pump Environment System	District Heating Boilers	≤500,000 m2	Single well heat exchange system + buried pipeline
Ground Energy Heating Device	Individual heating	Integrated Heating and Cooling System ≤2000 m2	1. single well heat exchange system; 2. buried pipeline; 3. heat accumulation tank; 4. combined heat exchange system
		Heating Only System ≤2000 m2	1. single well heat exchange system; 2. buried pipeline; 3. heat accumulation tank; 4. combined heat exchange system

Table 2: Portable Machine Rooms for Ground Source Energy Heating (Cooling)

Series No.	Heating (cooling) Capacity kW	Coverage areas (m²)
ZTYD-1	70	1,000
ZTYD-2	140	2,000
ZTYD-3	350	5,000
ZTYD-1	700	10,000

Table 3: Independent Heating Devices

(1) Complete Modular Products of Ground Energy Heating Devices

Series No.	Modular	Capacity (kW)	Coverage (m²)
1	Ground Source Energy Collection Modular	≤70	≤500
2	Transmit Modular	≤70	≤500
3	Ground Source Energy Heating and Cooling Devices Modular	≤70	≤500
4	Controlling Modular	≤70	≤500

(2) Integrated Device for Heating and Cooling with Ground Energy

Series No.	Type	Capacity kW	Coverage (m²/set)
1	Upright/Vertical type	≤7	≤50
2	Horizontal type	≤5	≤35
3	Wall Mount type	≤3.5	≤25
4	Roof Mount type	≤7	≤50
5	Air Duct type	≤7	≤50

(3) Ground Energy Heat Pump Boiler

Series No.	Series	Capacity kW	Coverage (m²)
1	RBGL-1	3.5	≤25
2	RBGL-2	7	≤50
3	RBGL-3	35	≤500
4	RBGL-4	70	≤1,000
5	RBGL-5	140	≤2,000
6	RBGL-6	350	≤5,000
7	RBGL-7	700	≤10,000

(4) Ground Energy Collection Devices

No.	Type	Heat Exchange Capacity (kW)
1	Buried Pipe Heat Exchanger (pcs)	5
2	Accumulative Heat Exchanger (pcs)	5
3	Single Well Heat Exchanger (set)	500
4	Buried Pipe + Single Well Joint Heat Exchanger (set)	20-500
5	Heat Accumulating Tank + Single Well Joint Heat Exchanger (set)	20-500

5. **While promoting the development in integrated heating and cooling industry, CGSE has nurtured five fairly mature business modalities.** They are: 1) licensing of patented products and proprietary technology; 2) contract management of shallow ground source energy as heating (cooling) energy; 3) construction and operation of distributed ground source energy station for cooling and heating; 4) sales and installation of HYY ground energy heat pump environment system; and 5) ground source energy for integrated heating and cooling industrial parks (including maintenance and experience demonstration center). By putting systems into modulars and products into series, and accompanied with growing number of local distributors, the Group has successfully diversified and optimized its profitability structure.

III. In 2014, CGSE further reinforced its industrial bases and perfected core products development. As a result, financial cost in the year increased against lowered sales volume. It is believed that the radical efforts made in 2014 will be fully reflected in business performance of 2015.

Smart Heating: A systematic way to provide heating for building with ground source energy in a combustion-free way that takes advantages of the latest information technologies such as internet and cloud computing. Based on the single well heat exchange ground source energy collection technology developed by the HYY and in combination with the mature heat pump technology, the heating system being highly secure and user friendly, features high efficiency and easy measurement which is good to nurture good energy saving behavior of people. In addition, the heating system casts no additional cost on building constructions.

Mr. Zheng Qiyu ("Mr. Zheng"), aged 61, the chairman of the Board and executive Director of the Company, holds a Bachelor's degree of Economics from Beijing Institute of Economics, a Master's degree of Economics from Nankai University and a Master's degree of Geological Engineering from Jilin University. He holds a Registered Qualification Certificate for Constructor (Hydraulic Engineering) with a researcher title. He had been Head of Beijing Institute of Geology for Mineral Resources (北京地質研究所), Head of Beijing Municipal Bureau of Geology and Mineral Exploration (北京地礦局) and its Department Service (地礦部服局), General Manager of China Geo-Engineering Company (中國地質工程公司), Chairman and Deputy Secretary of the Party Committee of China Geo-Engineering Corporation (中國地質工程集團公司) and Deputy General Manager of China New Era Group Corporation (中國新時代(控股)集團公司), Deputy General Manager of China Energy Conservation and Environmental Protection Group ("CECEP"). He is currently the Chairman of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 55, the deputy chairman of the Board and executive Director of the Company, holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and has extensive experience in supervising initial public offerings and other fund raising exercises conducted by companies in Asia. With various key positions previously held in listed companies, Ms. Chan has profound practicing knowledge in company's strategic planning and corporate management of listed companies.

Mr. Xu Shengheng ("Mr. Xu"), aged 52, the chief executive officer and executive Director of the Company. Mr. Xu holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has over 15 years of experience in the promotion, research and development of shallow ground source energy as alternative energy for heating. The single well heat exchange circulation system for ground source energy collection technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

Mr. Zang Yiran ("Mr. Zang"), aged 36, the chief financial officer and executive Director of the Company, graduated from Tianjin University of Finance & Economics with a Bachelor's degree. He commenced his career in September 1999 and worked as a director in Responsibility Accounting Centre of the Capital Operation Department of Tianjin First Center Hospital, a Business Manager of Financial Management Department of CECIC, an assistant to the Director of Financial Management Department of CECIC, an assistant to the Director of Financial Management Department of CECEP, the Deputy General Manager for China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Mr. Zhao Youmin ("Mr. Zhao"), aged 43, a non-executive Director of the Company graduated from Capital University of Economics and Business with a master's degree of economics. He is a senior economist. Previously, he worked as an officer of Labor and Human Resources Division of Tianjin Electric Power Construction Company and held the positions of senior operations supervisor of Human Resource Department and secretary to deputy general manager with State Development & Investment Corporation. Afterwards, he acted as secretary to general manager of China Energy Conservation Investment Corporation, deputy general manager of CECEP Solar Energy Technology Co., Ltd and director of Cooperation and Development Department of CECEP. Currently, he is an Executive Director and the general manager of China Energy Conservation & Environmental Protection (Hong Kong) Investment Company Ltd., a substantial shareholder of the Company.

Biography of Directors

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

Mr. Zhang Honghai ("Mr. Zhang"), aged 62, an independent non-executive Director of the Company, is a Senior Economist. Mr. Zhang graduated from Peking University in 1982 and subsequently completed a postgraduate programme at the International Business School of Hunan University and was awarded a master degree. Mr. Zhang also obtained an EMBA degree from Guanghua School of Management, Peking University.

Mr. Zhang has worked for the Beijing Municipal Government for many years. Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality and was Vice President of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as Deputy General Manager and was then promoted to Vice Chairman and General Manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management.

Mr. Zhang has served as Executive Director and Vice Chairman of Beijing Enterprises Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 392)) during the period from December 2003 to March 2013. During the period from May 2008 to October 2014, he was an Executive Director and Chairman of Beijing Enterprises Water Group Limited (a company listed on the Main Board of the Stock Exchange (stock code: 371)). He is currently an Executive Director of Beijing Development (Hong Kong) Limited (a company listed on the Main Board of the Stock Exchange (stock code: 154)) and an Executive Director and Chairman of the Board of BEP International Holdings Limited (a company listed on the Main Board of the Stock Exchange (stock code: 2326)).

Mr. Jia Wenzeng ("Mr. Jia"), aged 71, an independent non-executive Director of the Company, has been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Wu Desheng ("Mr. Wu"), aged 76, an independent non-executive Director of the Company, is the Vice President of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, President of the Civil Engineering & Architectural Society of Beijing, Director of the Committee of Professional Education Assessment of Building Environment and Equipment under the Ministry of Housing and Urban-Rural Development, the Education Supervisor and Adjunct Professor of Tsinghua University, Beijing University of Civil Engineering and Architecture and Xi'an Jiaotong University. Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963.

He worked as a technician at the Design Institute for Glass Industry of the Ministry of Construction between 1963 and 1971. Since 1971, he has been serving in various key positions at the Beijing Institute of Architectural Design, such as the Institute Head and Chief Engineer, and currently he is the Chief Consulting Engineer of the institute. Mr. Wu has obtained a number of awards, including the silver medal of the National Design Award and the National Labour Medal.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 48 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2014 by business segments are set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2014 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 35 to 135.

The directors do not recommend the payment of any dividend for the year ended 31 December 2014.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets, liabilities and non-controlling interests of the Group for the years ended 31 December 2014 and 2013, for the nine months ended 31 December 2012, for the years ended 31 March 2012 and 2011 are set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 December		Nine months ended 31 December	Year ended 31 March	
	2014	2013	2012	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Restated)	*HK$'000*
Turnover	**283,601**	363,662	230,990	318,079	322,211
(Loss) profit before tax	**(19,293)**	155,249	73,501	98,255	38,775
Income tax expense	**(29,666)**	(55,949)	(27,445)	(43,895)	(15,004)
(Loss) profit for the year/period from continuing operation	**(48,959)**	99,300	46,056	54,360	23,771
Profit for the year/period from discontinued operation	–	–	–	–	12,532
(Loss) profit for the year/period	**(48,959)**	99,300	46,056	54,360	36,303
Attributable to:					
Owners of the Company	**(53,506)**	101,810	45,951	45,204	34,413
Non-controlling interests	**4,547**	(2,510)	105	9,156	1,890
	(48,959)	99,300	46,056	54,360	36,303

Assets, liabilities and non-controlling interests

	As at 31 December			As at 31 March	
	2014	2013	2012	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	
Total assets	**2,618,847**	2,695,296	1,990,813	1,479,445	1,265,000
Total liabilities	**(1,009,316)**	(1,014,726)	(450,995)	(340,144)	(235,445)
Non-controlling interests	**(40,932)**	(37,958)	(39,680)	(39,168)	(23,188)
Equity attributable to equity holders of the Company	**1,568,599**	1,642,612	1,500,138	1,100,133	1,006,367

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued at 31 December 2014. The revaluation resulted in a surplus over book values amounting to approximately HK$9,100,000, 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 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the end of the year. The increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to approximately HK$9,207,000. Most of these investment properties will be developed as the Group's self-built demonstration leasing project with the application of shallow ground source energy.

PROPERTIES

Details of the major properties held by the Group at 31 December 2014 are set out on page 136 of the annual report.

SHARE CAPITAL

As at 31 December 2014, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 shares of US$0.01 each and the issued share capital was 2,904,327,117 shares of US$0.01 each, including 8,560,000 shares repurchased by the Company during the year ended 31 December 2014 and subsequently cancelled on 28 January 2015.

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 40 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2014, 8,560,000 shares of US$0.01 each were repurchased by the Company at prices ranging from HK$0.335 to HK$0.355 per share through the Stock Exchange.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 47 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 31 December 2014, the Company's reserve available for distribution amounted to approximately HK$803,071,000 (2013: HK$841,816,000) after net off the accumulated losses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 10% (2013: 54%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 3% (2013: 21%). Purchases from the Group's five largest suppliers accounted for approximately 22% (2013: 42%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11% (2013: 16%).

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

DIRECTORS

The directors of the Company during the year were:

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

Non-executive directors:
Mr. Zhao Youmin
Mr. Daiqi

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Zhang Honghai (Appointed on 2 September 2014)
Mr. Hu Zhaoguang (Resigned on 2 September 2014)

Note: In accordance with article 84(3) and 85 of the Company's articles of association, Mr. Zheng Qiyu, Mr. Zang Yiran and Mr. Zhang Honghai will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHY OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 15 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 13 and 45 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 December 2014, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	Capacity	Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
Ms. Chan Wai Kay	Beneficial owner	34,000,000 (L)	1.17%	43,700,000 (L)		
Katherine *(Note 1)*	Interest of spouse	10,074,000 (L)	0.35%	–	87,774,000 (L)	3.02%
Mr. Xu Shengheng	Beneficial owner	508,319,000 (L)	17.50%	34,284,000 (L)	543,305,000 (L)	18.71%
(Note 2)	Beneficial owner	508,300,000 (S)	17.50%	–	508,300,000 (S)	17.50%
	Interest of spouse	702,000 (L)	0.02%	–		
Mr. Jia Wenzeng *(Note 3)*	Beneficial owner	–	–	5,500,000 (L)	5,500,000 (L)	0.19%
Mr. Wu Desheng *(Note 4)*	Beneficial owner	–	–	4,000,000 (L)	4,000,000 (L)	0.14%

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

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

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

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 34,000,000 shares and 43,700,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond ("Mr. Chow"), spouse of Ms. Chan, holds 10,074,000 Shares of the Company ("Shares"). Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.

2. Mr. Xu Shengheng ("Mr. Xu") is interested in 508,319,000 Shares and 34,284,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.

3. Mr. Jia Wenzeng is interested in 5,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

4. Mr. Wu Desheng is interested in 4,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Positions under Equity Derivatives

The Share Option Plan

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Plan") for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 31 December 2014, the following directors of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 December 2014
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	7,500,000
		11 August 2015 to 10 August 2016	0.455	7,500,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	5,492,000
		11 August 2015 to 10 August 2016	0.455	5,492,000

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

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

The Share Option Plan (Continued)

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 December 2014
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000
Mr. Wu Desheng	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000

Save as disclosed above, as at 31 December 2014, 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 43 to the consolidated financial statements in respect of the share option plan, at no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire such rights in any other corporate body.

SHARE OPTION PLAN

The detailed disclosures relating to the Company's share option plan are set out in note 43 to the consolidated financial statements.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 December 2014, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions and short positions in shares and equity derivatives

	Number of issued ordinary shares of US$0.01 each in the Company held and capacity					
Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited *(Note 1)*	Beneficial owner	850,000,000 (L)	29.27%	–	850,000,000 (L)	29.27%
China Energy Conservation and Environmental Protection Group *(Note 1)*	Interest of controlled corporation	850,000,000 (L)	29.27%	–	850,000,000 (L)	29.27%
Ms. Luk Hoi Man *(Note 2)*	Beneficial owner	702,000 (L)	0.02%	–		
	Interest of spouse	508,319,000 (L)	17.50%	34,284,000 (L)	543,305,000 (L)	18.71%
	Interest of spouse	508,300,000 (S)	17.50%	–	508,300,000 (S)	17.50%

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

Notes:

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

2. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 34,284,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 34,284,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 31 December 2014, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

CONNECTED TRANSACTION

Continuing Connected Transaction not exempt from Independent Shareholders' Approval Requirements

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

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

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

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

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

The total sale of services to CECEP and its subsidiaries constituted continuing connected transactions with CECEP during the year ended 31 December 2014 was approximately RMB4,993,000 (equivalent to approximately HK$6,276,000).

Pursuant to the GEM Listing Rules, the Board has engaged the auditor to report on the Group's continuing connected transactions and the auditor has confirmed the continuing connected transactions in accordance with Rule 20.54 of the GEM Listing Rules and issued an unqualified letter containing their findings and conclusions accordingly.

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

CONNECTED TRANSACTION *(Continued)*

Connected Transaction not exempt from Independent Shareholders' Approval Requirements

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

Details of other significant related party transactions of the Group during the year ended 31 December 2014 are set out in note 45 to the consolidated financial statements.

REMUNERATION POLICY

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

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

The Company has adopted a share option plan as an incentive to the Directors and eligible employees. Details of the share option plan are set out in note 43 to the consolidated financial statements of this report.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Zhang Honghai and Mr. Wu Desheng. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2014 and has provided advice and comments thereon. The Audit Committee held 5 meetings during the year.

Report of the Directors

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 27 to 32.

SECURITIES TRANSACTIONS BY DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of the events after reporting period of the Group are set out in note 49 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2014 have been audited by SHINEWING (HK) CPA Limited who shall retire and, being eligible, offer themselves for re-appointment as the auditors of the Company at the forthcoming annual general meeting.

For and on behalf of the Board

Zheng Qiyu
Chairman

Hong Kong, 23 March 2015

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2014.

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2014 (the "Reporting Period"). This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the CG Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

As at 31 December 2014, the Board comprised of nine Directors including four executive Directors, namely Mr. Zheng Qiyu, Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng and Mr. Zang Yiran, two non-executive Directors, namely Mr. Zhao Youmin and Mr. Daiqi and three independent non-executive Directors, namely Mr. Zhang Honghai, Mr. Jia Wenzeng and Mr. Wu Desheng.

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

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

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

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

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 31 December 2014, a total of seven 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 2013, seven Board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees, as well as the general meetings were as follows:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. Zheng Qiyu	7/7	N/A	2/2	1/1	1/1
Ms. Chan Wai Kay Katherine	7/7	N/A	N/A	N/A	1/1
Mr. Xu Shengheng	7/7	N/A	2/2	N/A	1/1
Mr. Zang Yiran	7/7	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Zhao Youmin	7/7	N/A	N/A	N/A	0/1
Mr. Daiqi	7/7	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Jia Wenzeng	7/7	5/5	2/2	1/1	0/1
Mr. Wu Desheng	7/7	5/5	2/2	1/1	1/1
Mr. Zhang Honghai (Appointed on 2 September 2014)	2/2	1/1	1/1	N/A	N/A
Mr. Hu Zhaoguang (Resigned on 2 September 2014)	5/5	4/4	1/1	1/1	0/1

Code provision A.6.7 of the Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

Code provision E.1.2 of the Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, and Mr. Hu Zhaoguang, a former independent non-executive Director and the former chairman of the Remuneration Committee, did not attend the annual general meeting held on 9 May 2014 due to their engagement in other business.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the Reporting Period, the role of chairman was performed by Mr. Zheng Qiyu and Mr. Xu Shengheng has been the chief executive officer.

NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive Directors should be appointed for a specific term, subject to re-election. At present, each of Mr. Zhao Youmin and Mr. Daiqi, the non-executive Directors, Mr. Jia Wenzeng, Mr. Zhang Honghai and Mr. Wu Desheng, the independent non-executive Directors have been appointed for a specific term and subject to re-election.

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

DIRECTORS' AND OFFICERS' LIABILITIES

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

During the Reporting Period, each of the Directors has participated continuous professional development by attending seminars and/or has been reading materials relevant to the Director's duties and responsibilities and rules updates so as to develop and refresh their knowledge and skills, and to ensure that their contribution to the Board remains informed and relevant.

REMUNERATION COMMITTEE

A remuneration committee was formed in May 2006 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee in designing the remuneration packages would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management. The remuneration committee presently consists of three independent non-executive Directors, namely Mr. Zhang Honghai (chairman of remuneration committee), Mr. Jia Wenzeng and Mr. Wu Desheng and two executive Directors, namely Mr. Zheng Qiyu (the deputy chairman of remuneration committee) and Mr. Xu Shengheng. During the Reporting Period, the remuneration committee has reviewed the incentive scheme and made recommendation to the Board on how to formulate the scheme. The remuneration committee has also reviewed the director's fee paid to the independent non-executive Director appointed during the year.

During the Reporting Period, two meetings were held by the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was formed by the Company on 21 March 2012 with specific written terms of reference which has been adopted by the Company are consistent with the requirements of the Code. The primary duties of the nomination committee are, among others, to review the structure, size and composition (including the skills, knowledge and experience) and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The nomination committee presently consists of one executive Director, namely Mr. Zheng Qiyu (the chairman of nomination committee), one non-executive Director, namely Mr. Zhao Youmin (the deputy chairman of nomination committee) and three independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Zhang Honghai and Mr. Wu Desheng. During the Reporting Period, the nomination committee has considered the appointment of independent non-executive Director based on the board diversity policy of the Company, the composition of the Board and the background of the candidate.

During the Reporting Period, one meeting was held by the nomination committee.

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.

AUDITORS' REMUNERATION

The audit works of the Group for the year ended 31 December 2014 were performed by SHINEWING (HK) CPA Limited. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the Reporting Period are set out below:

Services rendered	**Fee paid/payable for the year ended 31 December 2014** *HK$'000*
Audit services	2,100
Non-audit services	–
Total fee paid/payable for the Reporting Period	2,100

AUDIT COMMITTEE

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

The audit committee currently consists of three independent non-executive Directors, namely Mr. Jia Wenzeng (chairman of the audit committee), Mr. Zhang Honghai and Mr. Wu Desheng.

During the year, the audit committee has reviewed the quarterly, interim and annual reports before submission to the Board and also reviewed the internal control system and made recommendations to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports. During the Reporting Period, five meetings were held.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

COMPANY SECRETARY

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

INTERNAL CONTROLS

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

During the year ended 31 December 2014, the audit committee has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of China Ground Source Energy Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 135, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
23 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	7	**283,601**	363,662
Cost of sales		**(196,314)**	(275,193)
Gross profit		**87,287**	88,469
Other income	9	**62,001**	15,843
Selling and distribution expenses		**(23,669)**	(29,958)
Administrative expenses		**(97,810)**	(115,221)
Loss on refunds of receipt in advance	37	**–**	(16,385)
Gain on disposal of a portion of investment properties	17	**–**	188,733
Fair value changes on investment properties	17	**9,207**	72,896
Impairment loss recognised in respect of trade receivables	27	**(11,570)**	(11,466)
Reversal of impairment loss recognised in respect of trade receivables in prior years	27	**15,450**	9,764
Profit from operations		**40,896**	202,675
Share of results of associates		**92**	(6,237)
Gain on deregistration of subsidiaries	41	**820**	24
Loss on deemed disposal of an associate	21	**(5,845)**	–
Share-based payments	43	**(16,865)**	(20,139)
Finance costs	10	**(38,391)**	(21,074)
(Loss) profit before tax		**(19,293)**	155,249
Income tax expense	11	**(29,666)**	(55,949)
(Loss) profit for the year	12	**(48,959)**	99,300
(Loss) profit for the year attributable to:			
Owners of the Company		**(53,506)**	101,810
Non-controlling interests		**4,547**	(2,510)
		(48,959)	99,300
(Loss) earnings per share	15		
Basic (HK cents)		**(1.84)**	3.51
Diluted (HK cents)		**(1.84)**	3.50

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	2014	2013
	HK$'000	*HK$'000*
(Loss) profit for the year	**(48,959)**	99,300
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
Gain on revaluation of leasehold land and buildings	**9,100**	1,093
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(29,176)**	29,585
Fair value gains on available-for-sale investments	**530**	–
Share of other comprehensive income of associates	**(1,943)**	2,473
Release of exchange translation reserve upon deregistration of subsidiaries	**(331)**	(154)
	(30,920)	31,904
Other comprehensive (expense) income for the year, net of income tax of nil	**(21,820)**	32,997
Total comprehensive (expense) income for the year	**(70,779)**	132,297
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(73,920)**	133,946
Non-controlling interests	**3,141**	(1,649)
	(70,779)	132,297

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current Assets			
Property, plant and equipment	16	**287,654**	233,434
Investment properties	17	**383,961**	308,776
Deposit paid for acquisition of land use rights	18	**56,110**	244,377
Goodwill	19	**465,760**	445,850
Intangible assets	20	**–**	–
Interests in associates	21	**24,362**	57,570
Available-for-sale investments	22	**100,974**	512
Prepayments	23	**16,844**	20,841
Deferred tax assets	24	**18,110**	22,262
		1,353,775	1,333,622
Current Assets			
Inventories	25	**29,947**	17,166
Properties held for sale under development	26	**104,729**	106,005
Trade and retention receivables	27	**168,266**	129,237
Prepayments, deposits and other receivables	28	**141,525**	73,022
Consideration paid for the acquisition of a subsidiary	29(i)	**–**	62,759
Refundable deposit paid for setting up of a joint venture	29(ii)	**–**	38,424
Amounts due from customers for contract work	30	**343,659**	389,506
Amount due from an associate	36	**15,130**	2,323
Amounts due from related companies	35	**728**	–
Held-for-trading financial assets	31	**3,872**	40
Available-for-sale investments	22	**124,930**	–
Cash held at non-bank financial institutions	32	**3,051**	1,262
Short-term bank deposits	32	**19,421**	484,763
Bank balances and cash	32	**309,814**	57,167
		1,265,072	1,361,674
Current Liabilities			
Trade payables	33	**136,200**	125,463
Accrued liabilities, deposits received and other payables	34	**152,322**	169,946
Amounts due to customers for contract work	30	**12,311**	18,956
Amounts due to related companies	35	**–**	560
Amounts due to associates	36	**12,446**	9,279
Tax payable		**115,477**	98,691
		428,756	422,895
Net Current Assets		**836,316**	938,779
Total Assets less Current Liabilities		**2,190,091**	2,272,401

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-Current Liabilities			
Receipt in advance	37	**9,446**	11,633
Deferred income	38	**8,525**	7,741
Borrowings	39	**499,721**	512,321
Deferred tax liabilities	24	**62,868**	60,136
		580,560	591,831
Net Assets		**1,609,531**	1,680,570
Capital and Reserves			
Share capital	40	**226,170**	226,053
Reserves		**1,342,429**	1,416,559
Equity attributable to owners of the Company		**1,568,599**	1,642,612
Non-controlling interests		**40,932**	37,958
Total Equity		**1,609,531**	1,680,570

The consolidated financial statements on pages 35 to 135 were approved and authorised for issue by the board of directors on 23 March 2015 and are signed on its behalf by:

Chan Wai Kay Katherine
Director

Zang Yiran
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital *HK$'000*	Share premium *HK$'000* *(Note a)*	Statutory reserve *HK$'000* *(Note b)*	Assets revaluation reserve *HK$'000*	Contributed surplus *HK$'000* *(Note c)*	Special reserve *HK$'000* *(Note d)*	Capital reserve *HK$'000* *(Note e)*	Share-based payment reserve *HK$'000*	Exchange translation reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2013	226,053	903,241	2,211	24,162	154,381	(1,694)	32,235	33,196	42,968	83,385	1,500,138	39,680	1,539,818
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	101,810	101,810	(2,510)	99,300
Other comprehensive income (expense) for the year:													
– Gain on leasehold land and buildings revaluation	–	–	–	1,093	–	–	–	–	–	–	1,093	–	1,093
– Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	2,473	–	2,473	–	2,473
– Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	28,724	–	28,724	861	29,585
– Release of exchange translation reserve upon deregistration of subsidiaries *(Note 41)*	–	–	–	–	–	–	–	–	(154)	–	(154)	–	(154)
Total other comprehensive income for the year	–	–	–	1,093	–	–	–	–	31,043	–	32,136	861	32,997
Total comprehensive income (expense) for the year	–	–	–	1,093	–	–	–	–	31,043	101,810	133,946	(1,649)	132,297
Deregistration of subsidiaries (Note 41)	–	–	–	–	–	–	–	–	–	–	–	(73)	(73)
Recognition of share-based payment expenses (Note 43)	–	–	–	–	–	–	–	20,139	–	–	20,139	–	20,139
Lapse of share options (Note 43)	–	–	–	–	–	–	–	(363)	–	363	–	–	–
Appropriation	–	–	135	–	–	–	–	–	–	(135)	–	–	–
Dividends recognised as distribution (Note 14)	–	(11,611)	–	–	–	–	–	–	–	–	(11,611)	–	(11,611)
At 31 December 2013	226,053	891,630	2,346	25,255	154,381	(1,694)	32,235	52,972	74,011	185,423	1,642,612	37,958	1,680,570

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Treasury shares HK$'000 (Note 40)	Assets revaluation reserve HK$'000	Contributed surplus HK$'000 (Note c)	Special reserve HK$'000 (Note d)	Capital reserve HK$'000 (Note e)	Share-based payment reserve HK$'000	Exchange translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014	226,053	891,630	2,346	–	25,255	154,381	(1,694)	32,235	52,972	74,011	185,423	1,642,612	37,958	1,680,570
(Loss) profit for the year	–	–	–	–	–	–	–	–	–	–	(53,506)	(53,506)	4,547	(48,959)
Other comprehensive (expense) income for the year				–										
– Gain on leasehold land and buildings revaluation	–	–	–	–	9,100	–	–	–	–	–	–	9,100	–	9,100
– Fair value gains on available-for-sale investments	–	–	–	–	–	–	–	530	–	–	–	530	–	530
– Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–	(1,943)	–	(1,943)	–	(1,943)
– Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	–	(27,770)	–	(27,770)	(1,406)	(29,176)
– Release of exchange translation reserve upon deregistration of subsidiaries *(Note 41)*	–	–	–	–	–	–	–	–	–	(331)	–	(331)	–	(331)
Total other comprehensive income (expense) for the year	–	–	–	–	9,100	–	–	530	–	(30,044)	–	(20,414)	(1,406)	(21,820)
Total comprehensive income (expense) for the year	–	–	–	–	9,100	–	–	530	–	(30,044)	(53,506)	(73,920)	3,141	(70,779)
Deregistration of subsidiaries *(Note 41)*	–	–	–	–	–	–	–	–	–	–	–	–	(167)	(167)
Issue of shares upon exercise of share options *(Note 40)*	117	803	–	–	–	–	–	–	(281)	–	–	639	–	639
Repurchase of ordinary shares *(Note 40)*	–	–	–	(3,083)	–	–	–	–	–	–	–	(3,083)	–	(3,083)
Recognition of share-based payment expenses *(Note 43)*	–	–	–	–	–	–	–	–	16,865	–	–	16,865	–	16,865
Lapse of share options *(Note 43)*	–	–	–	–	–	–	–	–	(752)	–	752	–	–	–
Appropriation	–	–	589	–	–	–	–	–	–	–	(589)	–	–	–
Dividends recognised as distribution *(Note 14)*	–	(14,514)	–	–	–	–	–	–	–	–	–	(14,514)	–	(14,514)
At 31 December 2014	226,170	877,919	2,935	(3,083)	34,355	154,381	(1,694)	32,765	68,804	43,967	132,080	1,568,599	40,932	1,609,531

Notes:

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

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(19,293)**	155,249
Adjustments for :			
Impairment loss recognised in respect of trade receivables	27	**11,570**	11,466
Impairment loss recognised in respect of deposit and other receivables	28	**–**	1,033
Write-down of inventories		**–**	2,016
Government grants income		**–**	(1,314)
Change in fair value of held-for-trading financial assets	9	**(580)**	5
Depreciation of property, plant and equipment	12	**9,500**	4,527
Loss on refunds of receipt in advance	37	**–**	16,385
Loss on uncertainty in respect of collectability of amounts due from customers for contract work	12	**51,308**	–
Finance costs	10	**38,391**	21,074
Bad debts recovery	9	**(1,110)**	–
Bank interest income	9	**(5,354)**	(2,074)
Imputed interest income on receipt in advance		**–**	(6,837)
Investment income from terminated investment plan in a joint venture	9	**(3,210)**	–
Loss on disposal of property, plant and equipment		**–**	305
Gain on disposal of a portion of investment properties	17	**–**	(188,733)
Loss on deemed disposal of an associate	21	**5,845**	–
Gain on deregistration of subsidiaries	41(ii)	**(820)**	(24)
Reversal of impairment loss recognised in respect of trade receivables in prior years	27	**(15,450)**	(9,764)
Share-based payments	43	**16,865**	20,139
Share of results of associates		**(92)**	6,237
Waiver of payables	9	**(3,435)**	–
Fair value changes on investment properties	17	**(9,207)**	(72,896)
Operating cash flows before movements in working capital		**74,928**	(43,206)
(Increase) decrease in inventories		**(12,973)**	4,729
Increase in trade and retention receivables		**(18,784)**	(42,133)
Increase in prepayments, deposits and other receivables		**(78,984)**	(22,659)
(Increase) decrease in amounts due from customers for contract work		**(15,041)**	67,563
Additions to property held for sale under development		**–**	(13,581)
Increase in amount due from a related company		**(1,274)**	–
Increase (decrease) in trade payables		**17,342**	(4,965)
(Decrease) increase in accrued liabilities, deposits received and other payables		**(24,726)**	56,575
Decrease in receipt in advance		**(1,901)**	(84,162)
(Decrease) increase in amounts due to customers for contract work		**(6,179)**	6,387
Cash used in operations		**(67,592)**	(75,452)
PRC Enterprise Income Tax ("PRC EIT") paid		**(1,267)**	(1,052)
NET CASH USED IN OPERATING ACTIVITIES		**(68,859)**	(76,504)

Consolidated Statement of Cash Flows *(Continued)*

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
INVESTING ACTIVITIES			
Consideration paid for acquisition of a subsidiary		–	(61,883)
Deposit refund (paid) for setting up of a joint venture		**37,888**	(37,888)
Purchase of property, plant and equipment		**(5,371)**	(9,914)
Net cash outflow on acquisition of subsidiaries	*41*	**(303)**	–
Proceeds on disposal of property, plant and equipment		**563**	340
Acquisition on available-for-sale investments		**(224,874)**	–
Acquisition on held-for-trading investments		**(169,627)**	–
Proceeds from disposal of held-for-trading investments		**166,375**	–
Development costs paid for properties held for sale under development		**(1,339)**	–
Deposits refunded for acquisition of land use rights		**241,577**	–
Deposits paid for acquisition of land use rights		**(56,110)**	–
Proceeds from disposal of a portion of investment properties		–	170,542
Proceeds on disposal of deposit paid for acquisition of land use rights		–	54,506
(Advance to) repayment from an associate		**(9,469)**	1,995
Development costs paid for investment properties under construction or development		**(58,287)**	(126,115)
Interest received		**5,354**	2,074
NET CASH USED IN INVESTING ACTIVITIES		**(73,623)**	(6,343)
FINANCING ACTIVITIES			
New borrowings raised		–	505,171
Government grants received		**973**	1,369
Proceeds from exercise of share options		**639**	–
Repayment to related companies		–	(15,864)
Interests paid		**(38,391)**	(10,223)
Dividends paid		**(14,514)**	(11,611)
Repurchase of ordinary shares		**(3,083)**	–
Repayment to an associate		–	(11,999)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(54,376)**	456,843
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(196,858)**	373,996
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**543,192**	157,721
Effect of foreign exchange rate changes		**(14,048)**	11,475
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by		**332,286**	543,192
Cash held at non-bank financial institutions		**3,051**	1,262
Short-term bank deposits		**19,421**	484,763
Bank balances and cash		**309,814**	57,167
		332,286	543,192

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. GENERAL AND BASIS OF PREPARATION

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

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries and associates are set out in notes 48 and 21 respectively.

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

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

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and Interpretations ("Int"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosure for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
Hong Kong (IFRS Interpretations Committee) ("HK(IFRIC)") – Int 21	Levies

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

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

The Group has applied amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities for the first time in the current year. The amendments to HKFRS 10 define an investment entity and introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

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

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities *(Continued)*

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

As the Company is not an investment entity, the directors of the Company consider that the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The Group has applied amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments have been applied retrospectively. As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

The Group has applied amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to HKAS 36 require disclosures on additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. If the recoverable amount is fair value less costs of disposal, an entity shall disclose the level of the fair value hierarchy within which the fair value measurement of the asset or cash-generating unit is catergorised in its entirety. The Group is required to make additional disclosures for Level 2 and Level 3 of the fair value hierarchy:

- a description of the valuation techniques used to measure the fair value less costs of disposals. If there is any change in valuation techniques, the fact and the reason should also be disclosed;
- each key assumption on which management has based its determination of fair value less costs of disposal;
- the discount rates used in the current and previous measurement if fair value less costs of disposal is measured using a present value technique.

The amendments have been applied retrospectively. The directors of the Company consider that the application of the amendments to HKAS 36 has had no material impact on the disclosures in the Group's consolidated financial statements.

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

The Group has applied amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to HKAS 39 introduce an exception to the requirements for the discontinuation of hedge accounting in HKAS 39 if specific conditions are met. The amendments to HKAS 39 state that the novation of a hedging instrument is not be considered an expiration or termination if the novation (a) is required by laws or regulations; (b) results in a central counterparty or an entity acting in a similar capacity becoming the new counterparty to each of the parties to the novated derivative and (c) does not result in changes to the terms of the original over-the-counter derivatives other than the changes directly attributable to the novation. For all other novations outside the scope of the exemption, an entity should assess if they meet the derecognition criteria and the conditions for continuation of hedge accounting.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

HK(IFRIC) – Int 21 Levies

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

HK(IFRIC) – Int 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments[5]
HKFRS 15	Revenue from Contracts with Customers[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 19	Defined Benefit Plans – Employee Contributions[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Veuture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to HKFRS 11	Accounting from Acquisitions of Interests in Joint Operations[3]

1 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces a "expected credit loss" model for impairment assessments.

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

HKFRS 9 (2014) Financial Instruments *(Continued)*

Key requirements of HKFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be required subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

The directors of the Company anticipate that the application of HKFRS 9 (2014) in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 (2014) until the Group undertakes a detailed review.

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

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations; and
(v) Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Annual Improvements to HKFRSs 2010-2012 Cycle

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

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

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

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

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

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

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

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

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

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

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

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

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

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

(i) the property meets the definition of investment property in terms of HKAS 40; and
(ii) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of the amendments will have material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 clarify that changing from one of the disposal methods (i.e. disposal through sale or disposal through distribution to owners) to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in HKFRS 5. Besides, the amendments also clarify that changing the disposal method does not change the date of classification.

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

Annual Improvements to HKFRSs 2012 – 2014 Cycle *(Continued)*

The amendments to HKFRS 7 clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the additional disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety are required. Besides, the amendments to HKFRS 7 also clarify that disclosures in relation to offsetting financial assets and financial liabilities are not required in the condensed interim financial report, unless the disclosures provide a significant update to the information reported in the most recent annual report.

The amendments to HKAS 19 clarify that the market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

HKAS 34 requires entities to disclose information in the notes to the interim financial statements 'if not disclosed elsewhere in the interim financial report'. The amendments to HKAS 34 clarify that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

The directors do not anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2012-2014 Cycle will have a material effect on the Group's consolidated financial statements.

Amendments to HKAS 19 Defined Benefit Plans – Employee Contributions

The amendments to HKAS 19 simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Specifically, contributions that are linked to services are attributed to periods of services as a negative benefit. The amendments to HKAS 19 specifies that such negative benefit are attributed in the same way as the gross benefit, i.e. attribute to periods of services under the plan's contribution formula or on a straight-line basis.

Besides, the amendments also states that if the contributions are independent of the number of years of employee service, such contributions may be recognised as a reduction of the service cost as they fall due.

The amendments to HKAS 19 will become effective for annual periods beginning on or after 1 July 2014 with early application permitted. The directors of the Company anticipate that the application of the amendments to HKAS 19 will have no material impact to the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities the use of revenue-based depreciation methods for property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that use of revenue based amortisation methods for an intangible asset is appropriate. This presumption can only be rebutted in the following two limited circumstances:

i) when the intangible asset is expressed as a measure of revenue; or

ii) when a high correlation between revenue and the consumption of the economic benefits of the intangible asset are highly demonstrated.

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

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation *(Continued)*

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation for its property, plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for leasehold land and buildings, investment properties and certain financial instruments, which are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances), appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with an resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investment in subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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

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

– deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 Income Taxes;

– assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

– liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

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

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

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

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

Goodwill

Goodwill arising from a business combination is carried at cost less any accumulated impairment losses, if any.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

The Group's policy for goodwill relating to an associate that included in the carrying amount of the investment is set out in "investments in associates and joint ventures" below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

When the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

Revenue recognition

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

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from projects involving installment of shallow ground source energy utilisation system are recognised when the outcome of the contract can be estimated reliably and is recognised by reference to the stage of completion (see the accounting policy in respect of construction contracts below).

Revenue recognition for rental income is set out in the section headed "Leasing" as below.

Service income is recognised when services are provided.

Consultancy fee income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Revaluations are made annually at each end of reporting period. Any revaluation increase arising on revaluation of leasehold land classified as finance lease is recognised in other comprehensive income and accumulated in the assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the assets revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued leasehold land and buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained earnings.

Depreciation is recognised so as to allocate the cost or revalued amounts of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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

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

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the consolidated statement of profit or loss.

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

Construction contracts

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, recognised in profit or loss in the period in which they arise except for:

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve (attributed to non-controlling interests as appropriate).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

Intangible assets

Intangible assets acquired in a business combination

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties held for sale under development

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-making; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other income line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in notes 6 and 31.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Impairment loss on financial assets

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Other financial liabilities

Other financial liabilities including trade payables, accrued liabilities and other payables, amounts due to related companies, amounts due to associates and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Equity instruments

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

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

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment arrangements

Equity-settled share-based payment transactions

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

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based payment reserve).

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the entity's accounting policies

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

Classification between investment properties and owner-occupied properties

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

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

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

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has recognised any deferred taxes on changes in fair value of investment properties as the Group is subject to PRC EIT and Land Appreciation Tax ("LAT") on disposal of its investment properties.

Controls in subsidiaries

The Group does not have any equity interests in 北京市廣廈建築事務所 ("Guangsha"). The Group entered into a structural agreement (the "Structural Agreement") with Guangsha and its shareholders in April 2011. Notwithstanding the lack of equity ownership, through the Structural Agreement, the Group is able to exercise control over Guangsha by way of controlling the voting rights of Guangsha, governing their financial and operating policies, appointing and removing the majority of the members of their controlling authorities, casting the majority of votes at meeting of such authorities and exposing and having rights to variable returns from its involvement with Guangsha. Accordingly, Guangsha are accounted for as subsidiary of the Group. Further details are set out in note 48.

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

As per note 48 to the consolidated financial statements, 綿陽市金恒源地能科技有限公司("金恒源") is a subsidiary of the Group even though the Group has only 48.24% of the effective interests in 金恒源 since the Group is able to exercise control over 金恒源 by way of controlling the voting rights of 金恒源, governing their financial and operating policies, appointing and removing the majority of the members of their board of directors, casting the majority of votes at meeting of such authorities and exposing and having rights to variable returns from its involvement in 金恒源.

The directors of the Company assessed the Group's control over 金恒源 on the basis of its practical ability to direct the relevant activities unilaterally. In making their judgement, the directors of the Company considered the Group has sufficiently dominant voting interest to direct the relevant activities of 金恒源 and therefore the Group has control over 金恒源.

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty *(Continued)*

Net realisable value for properties held for sale under development

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

Net realisable value for properties held for sale under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. During the course of the assessment, the management also made reference to property valuations conducted by independent qualified professional valuers based on a method of valuation which involves certain estimates of market condition. Management is required to revise these estimates if there is a change in market condition or demand. If actual market conditions are less favourable than those projected by management, additional adjustments to the value of properties held for sale under development may be required.

As at 31 December 2014, the carrying amounts of properties held for sale under development are approximately HK$104,729,000 (2013: HK$106,005,000).

Income taxes

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

Deferred tax asset has been recognised in respect of allowance for doubtful debts are approximately HK$18,110,000 as at 31 December 2014 (2013: HK$22,262,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, additional recognition of deferred tax assets may arise, which should be recognised in the consolidated statement of profit or loss for the period in which it takes place.

Estimation of fair value of investment properties

Investment properties are stated at fair values based on the valuations performed by independent professional valuers. In determining the fair values, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

As at 31 December 2014, the carrying amounts of the investment properties are approximately HK$383,961,000 (2013: HK$308,776,000). For the valuation methodologies and assumptions used for the valuation of the investment properties, please refer to note 17 for details.

Fair value measurements and valuation processes

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

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

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

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

Key sources of estimation uncertainty *(Continued)*

Construction contracts

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

During the year ended 31 December 2014, construction contracts income and expense in respect of the uncertainty arises about the collectability amounting to approximately HK$259,512,000 and HK$51,308,000 respectively (2013: HK$348,164,000 and HK$94,493,000 respectively) were recognised in the consolidated statement of profit or loss.

Depreciation of property, plant and equipment

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

Estimated impairment of property, plant and equipment

The management of the Group determines whether the property, plant and equipment are impaired, at least on an annual basis. The impairment loss for property, plant and equipment are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates. As at 31 December 2014, the carrying amount of property, plant and equipment is approximately HK$287,654,000 (net of accumulated depreciation and impairment loss of approximately HK$26,061,000) (2013: carrying amount of approximately HK$233,434,000 (net of accumulated depreciation and impairment loss of approximately HK$17,605,000). No impairment losses were recognised for the year ended 31 December 2014 (2013: Nil).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of goodwill is approximately HK$465,760,000, net of accumulated impairment loss of nil (2013: carrying amount of approximately HK$445,850,000, net of accumulated impairment loss of nil). No impairment losses were recognised for the year ended 31 December 2014 (2013: Nil).

Estimated allowance for inventories and write-down of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2014, the carrying amounts of inventories were approximately HK$29,947,000 (2013: HK$17,166,000). There were no inventories being written-down for the year ended 31 December 2014 (2013: HK$2,016,000).

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of properties held for sale under development

The management of the Group determines whether the properties held for sale under development are impaired, at least on an annual basis. The impairment loss for properties held for sale under development are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of properties held for sale under development have been determined based on valuation performed by independent professional valuers. In determining the fair values, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

As at 31 December 2014, the carrying amounts of the properties held for sale under development are approximately HK$104,729,000 (2013: HK$106,005,000). No impairment losses were recognised for the year ended 31 December 2014 (2013: Nil).

Estimated impairment of trade and retention receivables, and deposits and other receivables

The Group performs ongoing credit evaluations of these receivables and adjusts credit limits based on payment history and the customer's and borrower's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from these receivables and maintains a provision for estimated credit losses based upon its historical experience. As at 31 December 2014, the carrying amounts of trade and retention receivables were of approximately HK$168,266,000, net of allowance for doubtful debts of approximately HK$6,301,000 (2013: the carrying amounts of trade and retention receivables were of approximately HK$129,237,000, net of allowance for doubtful debts of approximately HK$10,416,000), and deposits and other receivables are approximately HK$67,630,000, net of allowance for doubtful debts of approximately HK$3,299,000 (2013: the carrying amount of deposit and other receivables were of approximately HK$57,334,000, net of allowance for doubtful debts of approximately HK$3,302,000) respectively. The impairment losses recognised for the year ended 31 December 2014 were approximately HK$11,570,000 and nil in respect of trade receivables, and deposits and other receivables (2013: approximately HK$11,466,000 and HK$1,033,000) respectively.

Estimated impairment of interests in associates

The impairment review of interests in associates required management's judgement particularly in assessing: (i) whether an event has occurred that may indicate that the related carrying value of interests may not be recoverable; and (ii) whether the carrying value of the interests can be supported by the recoverable amount. Changing the estimates used by management in assessing impairment could materially affect the recoverable amount used in the impairment test and as a result affect the Group's consolidated financial position and results of operations. As at 31 December 2014, the carrying value of interests in associates is approximately HK$24,362,000 (2013: HK$57,570,000). No impairment losses were recognised for the year ended 31 December 2014 (2013: Nil).

Estimated impairment of available-for-sale investments

The management of the Group follows the guidance of HKAS 39 to review available-for-sale investments carried at cost (Note 22) at the end of each reporting period to assess whether they are impaired. This determination requires significant judgment and estimates. In making the judgment and estimates, the management evaluates the financial health of and near-term business outlook for the investees, including factors such as industry and sector performance, changes in technology and operational and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets.

As at 31 December 2014, the carrying amounts of available-for-sale investments stated at cost are approximately HK$162,909,000 (2013: HK$512,000). No impairment losses were recognised for the year ended 31 December 2014 (2013: Nil).

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net borrowings, which includes borrowings and cash and cash equivalents disclosed in notes 39 and 32 respectively, and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

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

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

	2014	2013
	HK$'000	*HK$'000*
Total borrowings	**499,721**	512,321
Equity *(Note)*	**1,568,599**	1,642,612
Gearing ratio	**32%**	31%

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2014	2013
	HK$'000	*HK$'000*
Financial assets		
FVPTL – held for trading financial assets	**3,872**	40
Loans and receivables (including cash and cash equivalents)	**584,041**	833,269
Available-for-sale investments	**225,904**	512
Financial liabilities		
Amortised cost	**767,370**	795,842

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading financial assets, trade and retention receivables, deposits and other receivables, consideration paid for the acquisition of a subsidiary, refundable deposit paid for setting up of a joint venture, amount due from an associate, amounts due from related companies, short term bank deposits, cash held at non-bank financial institutions, bank balances and cash, trade payables, accrued liabilities and other payables, amounts due to related companies, amounts due to associates and borrowings.

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

Market risk

(i) Currency risk

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

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

The carrying amounts of the Group's foreign currency (i.e. HK$) denominated monetary assets and liabilities at the reporting period are as follows:

	Assets		**Liabilities**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**1,730**	4,906	–	–
Bank balances and cash	**212,936**	34,822	–	–
Accrued liabilities and other payables	–	–	**4,563**	3,761
Total exposure	**214,666**	39,728	**4,563**	3,761

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (2013: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2013: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2013: 5%) change in foreign currency rates. A positive number below indicates an increase/decrease in loss (2013: a decrease/increase in profit) after tax for the year where RMB strengthen 5% (2013: 5%) against the relevant currency.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

For a 5% (2013: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the (loss) profit after tax and the balances below would be negative.

	2014	2013
	HK$'000	*HK$'000*
HK$	**(7,879)**	(1,349)

(ii) Interest rate risk

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market deposit rates arising from the Group's bank balances and deposits and the RMB Benchmark Loans Interest Rate stipulated by the People's Bank of China arising from the Group's RMB denominated loan.

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss would increase/decrease by approximately HK$379,000 (2013: post-tax profit would decrease/increase by approximately HK$1,699,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings and deposits.

(iii) Other price risk

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

The sensitivity analyses have been determined based on the exposure to equity price risks for investments in equity instruments carried at fair value at the end of the reporting period. If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, the effect to the profit or loss of the Group is insignificant.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2013: 100%) of the total trade and retention receivables as at 31 December 2014.

The Group has a concentration of credit risk as 24% and 42% (2013: 32% and 45%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 December 2014 within the shallow ground source energy business segment.

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

Liquidity risk

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Within 1 year or on demand	More than one year but not exceeding two years	More than two years but not more than five years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2014					
Non-derivative financial liabilities					
Trade payables	**136,200**	**–**	**–**	**136,200**	**136,200**
Accrued liabilities and other payables	**119,003**	**–**	**–**	**119,003**	**119,003**
Amount due to associates	**12,446**	**–**	**–**	**12,446**	**12,446**
Borrowings	**38,728**	**527,521**	**–**	**566,249**	**499,721**
	306,377	**527,521**	**–**	**833,898**	**767,370**

	Within 1 year or on demand	More than one year but not exceeding two years	More than two years but not more than five years	Total undiscounted cash flows	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2013					
Non-derivative financial liabilities					
Trade payables	125,463	–	–	125,463	125,463
Accrued liabilities and other payables	148,219	–	–	148,219	148,219
Amount due to related companies	560	–	–	560	560
Amount due to associates	9,279	–	–	9,279	9,279
Borrowings	39,705	39,705	540,821	620,231	512,321
	323,226	39,705	540,821	903,752	795,842

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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

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

Financial asset	Fair value as at 2014	Fair value as at 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Fund classified as available-for-sale investments in the statement of financial position *(Note 22)*	**Fund investments in natural resources: HK$62,995,000**	N/A	Level 1	Quoted bid prices in an active market.
Held-for-trading non-derivative financial assets classified as held-for-trading financial assets in the statement of financial position *(Note 31)*	**Listed securities in the Stock Exchange: – Manufacture, infrastructure construction and properties development: HK$3,872,000**	Listed securities in the Stock Exchange: – Infrastructure: HK$40,000	Level 1	Quoted bid prices in an active market.

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

7. REVENUE

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

	2014	2013
	HK$'000	*HK$'000*
Sales and installation of shallow ground source energy utilisation system	**259,512**	348,164
Maintenance services for shallow ground source energy utilisation system	**8,959**	6,121
Rental income *(Note (i))*	**15,130**	9,377
	283,601	363,662

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

	2014	2013
	HK$'000	*HK$'000*
Gross rental income	**15,130**	9,377
Less: direct operating expenses from investment properties that generated rental income during the year	**(2,141)**	(2,425)
Net rental income	**12,989**	6,952

8. SEGMENT INFORMATION

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

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

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

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

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

Segment revenue and results

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

For the year ended 31 December 2014

	Shallow ground source energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment and development *HK$'000*	Total *HK$'000*
REVENUE				
External sales	268,471	–	15,130	283,601
Segment results	68,091	580	22,198	90,869
Share of results of associates				92
Unallocated other income				9,721
Unallocated expenses				(81,584)
Unallocated finance costs				(38,391)
Loss before tax				(19,293)

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2013

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2013: Nil).

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

Segment assets and liabilities

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

Segment assets

	2014 **HK$'000**	2013 *HK$'000*
Shallow ground source energy	**1,414,779**	1,264,449
Securities investment and trading	**231,699**	7,018
Properties investment and development	**578,663**	698,142
Total segment assets	**2,225,141**	1,969,609
Unallocated corporate assets	**393,706**	725,687
Consolidated total assets	**2,618,847**	2,695,296

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Segment liabilities

	2014 *HK$'000*	2013 *HK$'000*
Shallow ground source energy	**268,491**	291,039
Securities investment and trading	**3,152**	3,666
Properties investment and development	**47,161**	39,034
Total segment liabilities	**318,804**	333,739
Unallocated corporate liabilities	**690,512**	680,987
Consolidated total liabilities	**1,009,316**	1,014,726

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

- all assets are allocated to operating segments other than interests in associates, deferred tax assets, short-term bank deposits, amount due from an associate, consideration paid for the acquisition of a subsidiary, amounts due from related companies, refundable deposit paid for setting up of a joint venture, bank balances and cash and unallocated corporate assets; and

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

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2014

	Shallow ground source energy *HK$'000*	Securities investment and trading *HK$'000*	Properties investment and development *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	61,200	–	375	61,575
Development costs paid for investment properties under construction	–	–	58,287	58,287
Impairment loss recognised in respect of trade receivables	11,570	–	–	11,570
Fair-value changes on held-for-trading financial assets	–	(580)	–	(580)
Reversal of impairment loss recognised in respect of trade receivables in prior years	(15,450)	–	–	(15,450)
Depreciation	8,618	–	882	9,500
Fair-value changes on investment properties	–	–	(9,207)	(9,207)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	24,362	–	–	24,362
Share of results of associates	(92)	–	–	(92)
Interest income	(5,354)	–	–	(5,354)
Interest expenses	38,391	–	–	38,391
Income tax expense	25,141	–	4,525	29,666

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2013

	Shallow ground source energy HK$'000	Securities investment and trading HK$'000	Properties investment and development HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (*Note*)	194,348	–	762	195,110
Development costs paid for investment properties under construction	–	–	126,115	126,115
Impairment loss recognised in respect of trade receivables	11,466	–	–	11,466
Fair-value changes on held-for-trading financial assets	–	5	–	5
Reversal of impairment loss recognised in respect of trade receivables in prior years	(9,764)	–	–	(9,764)
Depreciation	3,378	–	1,149	4,527
Fair-value changes on investment properties	–	–	(72,896)	(72,896)
Imputed interest income on receipt in advance	–	–	(6,837)	(6,837)
Imputed interest expense on receipt in advance	–	–	5,440	5,440
Imputed interest expense on prepayments	404	–	5,007	5,411
Loss on refunds of receipt in advance	–	–	16,385	16,385
Gain on disposal of a portion of investment properties	–	–	(188,733)	(188,733)
Write-down of inventories	2,016	–	–	2,016
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	57,570	–	–	57,570
Share of results of associates	6,237	–	–	6,237
Interest income	(2,074)	–	–	(2,074)
Interest expenses	10,223	–	–	10,223
Income tax expense	7,689	–	48,260	55,949

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

8. SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about major customers

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

	2014 *HK$'000*	2013 *HK$'000*
Customer A[1]	N/A[2]	**75,772**
Customer B[1]	N/A[2]	**41,045**

[1] Revenue from shallow ground source energy business

[2] No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2014.

9. OTHER INCOME

	2014 *HK$'000*	2013 *HK$'000*
Bank interest income	**5,354**	2,074
Bad debts recovery	**1,110**	–
Government grants *(Note a)*	**45,461**	1,314
Change in fair value of held-for-trading financial assets	**580**	–
Compensation received	**366**	845
Consultancy fee income	**1,205**	183
Imputed interest income on receipt in advance	–	6,837
Investment income from terminated investment plan in a joint venture *(Note 29)*	**3,210**	–
Possession fee income	–	2,031
Sale of scrap materials	**943**	2,234
Waiver of payables *(Note b)*	**3,435**	–
Others	**337**	325
	62,001	15,843

Notes:

(a) Included in the amount of government grants recognised during the year ended 31 December 2014, approximately HK$45,461,000 (2013: Nil) were received in respect of certain research projects of the Group, and the Group fulfill the relevant granting criteria which immediately recognised as other income, and no government grants (2013: HK$1,314,000) were recognised as deferred income utilised during the year.

(b) During the year ended 31 December 2014, a supplier incorporated in the PRC was liquidated, thus the related debts being due were waived.

10. FINANCE COSTS

	2014	2013
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	**38,391**	10,223
Imputed interest expense on prepayments	–	5,411
Imputed interest expense on receipt in advance	–	5,440
	38,391	21,074

11. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax:		
PRC EIT	**24,530**	35,802
Over-provision in prior years:		
PRC EIT	**(3,703)**	–
Deferred tax *(Note 24)*:		
PRC EIT	**8,839**	14,172
LAT	–	5,975
	29,666	55,949

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

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

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

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprise in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2014 (2013: 15%).

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

11. INCOME TAX EXPENSE *(Continued)*

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

	2014	2013
	HK$'000	*HK$'000*
(Loss) profit before tax	**(19,293)**	155,249
Tax at the domestic income tax rate	**(1,060)**	43,110
Over-provision in prior years	**(3,703)**	–
Tax effect of share of results of associates	**(23)**	1,559
Tax effect of expenses not deductible for tax purpose	**35,357**	41,775
Tax effect on investment properties for deferred tax purposes	**–**	5,975
Tax effect of income not taxable for tax purpose	**(648)**	(14,902)
Income tax on concessionary rate	**(257)**	(21,568)
Tax expense for the year	**29,666**	55,949

12. (LOSS) PROFIT FOR THE YEAR

	2014	2013
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Staff costs, including directors' emoluments *(Note 13)*		
– Wages and salaries	**51,664**	44,544
– Retirement benefits scheme contributions	**9,176**	7,133
– Share-based payments	**16,865**	20,139
	77,705	71,816
Cost of inventories sold	**145,006**	178,684
Change in fair value of held-for-trading financial assets	**–**	5
Depreciation of property, plant and equipment	**9,500**	4,527
Auditor's remuneration	**2,106**	2,100
Minimum lease payments under operating leases in respect of land and buildings	**10,919**	9,436
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	**51,308**	94,493
Loss on disposal of property, plant and equipment	**–**	305
Write-down of inventories	**–**	2,016
Impairment loss recognised in respect of a deposit and other receivables	**–**	1,033
Research costs (included in administrative expenses)*	**4,928**	14,533

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

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors and the chief executive

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

	For the year ended 31 December 2014				
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,920	17	824	2,761
Mr. Xu Shengheng*	–	3,586	17	603	4,206
Mr. Zheng Qiyu	–	–	–	–	–
Mr. Zang Yiran *(Note 3)*	–	1,200	–	–	1,200
Non-executive directors:					
Mr. Zhao Youmin *(Note 4)*	–	–	–	–	–
Mr. Daiqi *(Note 4)*	–	780	–	–	780
Independent non-executive directors:					
Mr. Zhang Honghai *(Note 2)*	50	–	–	–	50
Mr. Hu Zhaoguang *(Note 1)*	–	–	–	–	–
Mr. Jia Wenzeng	150	–	–	82	232
Mr. Wu Desheng	150	–	–	82	232
Total	350	7,486	34	1,591	9,461

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

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

	For the year ended 31 December 2013				
	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Share-based payments *HK$'000*	Total *HK$'000*
Executive directors:					
Ms. Chan Wai Kay, Katherine	–	1,905	15	1,213	3,133
Mr. Xu Shengheng*	–	3,313	15	1,213	4,541
Mr. Zheng Qiyu	–	–	–	–	–
Mr. Zang Yiran *(Note 3)*	–	1,431	–	–	1,431
Non-executive directors:					
Mr. Zhao Youmin *(Note 4)*	–	–	–	–	–
Mr. Daiqi *(Note 4)*	–	1,112	–	–	1,112
Ms. Wu Xiaohua *(Note 5)*	–	–	–	363	363
Ms. Xu Genghong *(Note 5)*	–	–	–	–	–
Independent non-executive directors:					
Mr. Hu Zhaoguang *(Note 1)*	–	–	–	–	–
Mr. Jia Wenzeng	150	–	–	259	409
Mr. Wu Desheng	150	–	–	259	409
Total	300	7,761	30	3,307	11,398

Notes:

(1) Resigned on 2 September 2014

(2) Appointed on 2 September 2014

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

(4) Appointed on 12 August 2013

(5) Resigned on 12 August 2013

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

None of the directors and the chief executive waived or agreed to waive any emoluments paid by the Company during the years ended 31 December 2014 and 2013.

During the years ended 31 December 2014 and 2013, no emoluments were paid by the Group to any of the directors and the chief executive as an inducement to join or upon joining the Group or as compensation for loss of office.

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

(b) Employees

Of the five individuals with the highest emoluments in the Group, four (2013: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining one (2013: two) individuals were as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and other benefits	**894**	2,640
Retirement benefits scheme contributions	**9**	–
	903	2,640

The emolument of the above employees was ranged from HK$0 to HK$1,000,000 during the year ended 31 December 2014 (2013: ranged from HK$1,000,001 to HK$1,500,000).

During the years ended 31 December 2014 and 2013, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

	2014	2013
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
2013 Final – HK0.5 cents (2012: HK0.4 cents) per share	**14,514**	11,611

Final dividend for the year ended 31 December 2014

No dividend was proposed since the end of the reporting period.

Final dividend for the year ended 31 December 2013

During the year, final dividend for the year ended 31 December 2013 of HK0.5 cents per share amounted to HK$14,514,000 in aggregate was recognised as distribution.

15. (LOSS) EARNINGS PER SHARE

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

	2014	2013
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**(53,506)**	101,810

	2014	2013
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,903,468**	2,902,827
Effect of dilutive potential ordinary shares:		
Share options *(Note)*	**–**	8,517
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,903,468**	2,911,344

Note: The computation of diluted earnings per share does not assume the exercise of the Company's options because their exercise would result in a decrease in loss per share for the year ended 31 December 2014.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Computer equipment	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION								
At 1 January 2013	7,836	2,693	16,513	2,692	4,910	9,303	9,007	52,954
Exchange realignment	2,850	53	405	81	147	197	326	4,059
Additions	185,196	1,475	994	205	484	2,616	4,140	195,110
Disposals	–	–	–	(35)	(23)	(1,674)	–	(1,732)
Written off	–	–	(3)	(50)	(51)	–	–	(104)
Deregistration of subsidiaries	–	–	–	(10)	(11)	–	–	(21)
Revaluation	773	–	–	–	–	–	–	773
At 31 December 2013	196,655	4,221	17,909	2,883	5,456	10,442	13,473	251,039
Comprising								
At cost	–	4,221	17,909	2,883	5,456	10,442	13,473	54,384
At valuation	196,655	–	–	–	–	–	–	196,655
	196,655	4,221	17,909	2,883	5,456	10,442	13,473	251,039
At 1 January 2014	196,655	4,221	17,909	2,883	5,456	10,442	13,473	251,039
Exchange realignment	(4,836)	(78)	(1,138)	(68)	(134)	(78)	(352)	(6,684)
Additions	–	49	570	270	543	606	3,333	5,371
Additions through acquisition of subsidiaries *(Note 41)*	–	–	56,204	–	–	–	–	56,204
Disposals	–	–	–	(26)	(13)	(954)	–	(993)
Deregistration of a subsidiary	–	–	–	(4)				(4)
Revaluation	8,782	–	–	–	–	–	–	8,782
At 31 December 2014	200, 601	4,192	73,545	3,055	5,852	10,016	16,454	313,715
Comprising								
At cost	–	4,192	73,545	3,055	5,852	10,016	16,454	113,114
At valuation	200,601	–	–	–	–	–	–	200,601
	200,601	4,192	73,545	3,055	5,852	10,016	16,454	313,715

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

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2013	–	1,268	1,962	2,465	3,836	4,770	–	14,301
Exchange realignment	–	31	57	48	91	75	–	302
Provided for the year	320	144	1,842	177	385	1,659	–	4,527
Eliminated on deregistration of subsidiaries	–	–	–	(6)	(8)	–	–	(14)
Eliminated on revaluation	(320)	–	–	–	–	–	–	(320)
Eliminated on disposals	–	–	–	(35)	(24)	(1,028)	–	(1,087)
Written back	–	–	(3)	(50)	(51)	–	–	(104)
At 31 December 2013	–	1,443	3,858	2,599	4,229	5,476	–	17,605
At 1 January 2014	–	1,443	3,858	2,599	4,229	5,476	–	17,605
Exchange realignment	–	(58)	(23)	(46)	(127)	(41)	–	(295)
Provided for the year	318	205	6,469	161	629	1,718	–	9,500
Eliminated on revaluation	(318)	–	–	–	–	–	–	(318)
Eliminated on disposals	–	–	–	(26)	(13)	(391)	–	(430)
Eliminated on deregistration of a subsidiary	–	–	–	(1)	–	–	–	(1)
At 31 December 2014	–	1,590	10,304	2,687	4,718	6,762	–	26,061
CARRYING VALUES								
At 31 December 2014	200,601	2,602	63,241	368	1,134	3,254	16,454	287,654
At 31 December 2013	196,655	2,778	14,051	284	1,227	4,966	13,473	233,434

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

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

Leasehold land and building	50 years or over the lease terms, whichever is shorter
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	8 to 20 years
Computer equipment	4 to 8 years
Office equipment, furniture and fixtures	4 to 5 years
Motor vehicles	5 to 8 years

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

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

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

If leasehold land and buildings had not been revalued, they would have been included in these consolidated financial statements at historical cost less accumulated depreciation of approximately HK$185,993,000 (2013: HK$196,885,000).

The Group is in the process of obtaining the ownership certificates for certain buildings at a carrying amount of approximately HK$191,606,000 (2013: HK$187,817,000).

Fair value measurement of the Group's land and buildings

The Group's land and buildings were valued on 31 December 2014 and 31 December 2013 by Peak Vision Appraisals Limited ("Peak Vision"), independent valuers not related to the Group.

The fair value of the leasehold land and buildings in Dalian of approximately HK$8,995,000 (2013: HK$8,838,000) was determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the land and building under review.

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

There has been no change from the valuation techniques used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

Details of the Group's leasehold land and buildings and information about the fair value hierarchy as at 31 December 2014 are as follows:

	Level 1	**Level 2**	**Level 3**	**Fair value as at 31 December 2014**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
A office building in Dalian, the PRC:				
– leasehold land and building	**–**	**8,995**	**–**	**8,995**
A office building in Beijing, the PRC:				
– building	**–**	**–**	**191,606**	**191,606**

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

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

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

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

Carrying values of leasehold land and buildings held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
At 31 December 2014				
Office buildings in Beijing, the PRC HK$191,606,000	Level 3	Income approach The key inputs are: 1. Market unit rent and 2. Market yield	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of RMB4.6/sq. m. per day.	The increase in the market unit rent would result in a increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 5.25%	The increase in the market yield would result in a decrease in fair value.
Leasehold land and buildings in Dalian, the PRC HK$8,995,000	Level 2	Direct comparison method based on market observable transactions of similar properties and adjusts to reflect the conditions and locations of the subject property.	N/A	N/A
At 31 December 2013				
Office buildings in Beijing, the PRC HK$187,817,000	Level 3	Income approach The key inputs are: 1. Market unit rent and 2. Market yield;	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of RMB4.5/sq. m. per day.	The increase in the market unit rent would result in an increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 5.5%	The increase in the market yield would result in a decrease in fair value.
Leasehold land and building in Dalian, the PRC HK$8,838,000	Level 2	Direct comparison method based on market observable transactions of similar properties and adjusts to reflect the conditions and locations of the subject property.	N/A	N/A

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

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

	Office buildings in Beijing
	HK$'000
At 1 January 2013	–
Exchange realignment	2,621
Additions	185,196
At 31 December 2013	187,817
Exchange realignment	(4,619)
Revaluation	8,408
At 31 December 2014	191,606

17. INVESTMENT PROPERTIES

	Investment properties under construction or development at fair value	Investment properties under construction or development at cost	Investment properties at fair value	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2013	136,699	108,993	–	245,692
Exchange realignment	4,787	2,689	602	8,078
Development costs paid	20,883	105,232	–	126,115
Disposal (Note 46)	–	(144,005)	–	(144,005)
Transfer upon completion	–	(72,909)	72,909	–
Fair value gains recognised in the consolidated statement of profit or loss	30,392	–	42,504	72,896
At 31 December 2013 and 1 January 2014	192,761	–	116,015	308,776
Exchange realignment	(5,145)	–	(2,956)	(8,101)
Development costs paid	50,471	–	7,816	58,287
Transfer from prepayments, deposits and other receivables	–	–	15,792	15,792
Fair value gains (losses) recognised in the consolidated statement of profit or loss	15,896	–	(6,689)	9,207
At 31 December 2014	253,983	–	129,978	383,961

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

17. INVESTMENT PROPERTIES *(Continued)*

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

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

The disposal consideration for the sale to the individual third party was satisfied with cash and was completed by 31 December 2013. It resulted in gain on disposal of approximately RMB12,636,000 (approximately HK$15,958,000). For the disposal consideration for the sale to 四博連, it was satisfied with office buildings amounted to approximately RMB146,640,000 (approximately HK$185,196,000) (Notes 16 and 46) and a cash consideration of approximately RMB113,037,000 (approximately HK$142,758,000). The transfers of office buildings and investment properties were completed by 31 December 2013. The sale of the portion of investment properties to 四博連 resulted in a gain on disposal of approximately RMB136,805,000 (approximately HK$172,775,000) during the year ended 31 December 2013.

The Group is in the process of obtaining the ownership certificates for certain investment properties at a carrying amount of approximately HK$129,978,000 (2013: HK$116,015,000).

The fair values of investment properties as at 31 December 2014 and 2013 have been arrived at on the basis of valuations carried out on the respective dates by Peak Vision, independent qualified professional valuers not related to the Group.

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

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

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

17. INVESTMENT PROPERTIES *(Continued)*

Detail of the Group's investment properties and information about the fair value hierarchy as at 31 December 2014 and 2013 are as follow:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Industrial and ancillary property units located in Beijing, the PRC	–	–	**113,486**	**113,486**
Commercial property units located in Dalian, the PRC	–	**16,492**	**31,233**	**47,725**
Residential property units located in Dalian, the PRC	–	–	**222,750**	**222,750**

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

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

17. INVESTMENT PROPERTIES *(Continued)*

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

Carrying values of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
At 31 December 2014				
Industrial and ancillary properties in Beijing, the PRC HK$113,486,000	Level 3	Income approach The key inputs are: 1. Market unit rent and 2. Market yield	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of range from RMB1.5/sq. m. to RMB3.1/sq. m. per day.	The increase in the market unit rent would result in a increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 7.25%	The increase in the market yield would result in a decrease in fair value.
Residential properties in Dalian, the PRC HK$222,750,000	Level 3	Residual approach The key input is market unit sales rate (RMB/sq. m.)	Market unit sales rate, using the direct market comparable and taking into account of location and other individual factors at a range from RMB4,150/sq. m. to RMB6,000/sq. m.	The increase in the market unit sales rate would result in an increase in fair value.
Commercial properties in Dalian, the PRC HK$31,233,000	Level 3	Residual approach The key input is market unit sales rate (RMB/sq. m.)	Market unit sales rate, using the direct market comparable and taking into account of location and other individual factors at RMB3,700/sq. m.	The increase in the market unit sales rate would result in an increase in fair value.
Commercial properties in Dalian, the PRC HK$16,492,000	Level 2	Direct comparison method based on market observable transactions of similar properties and adjusts to reflect the conditions and locations of the subject property.	N/A	N/A

17. INVESTMENT PROPERTIES *(Continued)*

Carrying value of investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
At 31 December 2013				
Industrial and ancillary properties in Beijing, the PRC HK$116,015,000	Level 3	Income approach The key inputs are: 1. Market unit rent 2. Market yield	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of range from RMB1.5/sq. m. to RMB2.9/sq. m. per day.	The increase in the market unit rent would result in an increase in fair value.
			Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 7.5%	The increase in the market yield would result in a decrease in fair value.
Residential properties in Dalian, the PRC HK$162,150,000	Level 3	Residual approach The key inputs are: 1. Market unit sales rate (RMB/sq. m.) 2. Developer's profit and risk rate	Market unit sales rate, using market direct comparable and taking into account of location and other individual factors at RMB4,053/sq. m.	The increase in the market unit sales rate would result in an increase in fair value.
			Developer's profit and risk rate, taking into account of the progress of the property of 5%.	The increase in the developer's profit and risk rate would result in a decrease in fair value.
Commercial properties in Dalian, the PRC HK$30,611,000	Level 3	Residual approach The key input is market unit sales rate (RMB/sq. m.)	Market unit sales rate, using the direct market comparable and taking into account of location and other individual factors at RMB3,600/sq. m.	The increase in the market unit sales rate would result in an increase in fair value.

17. INVESTMENT PROPERTIES *(Continued)*

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

	Industrial and ancillary properties in Beijing	Residential properties in Dalian	Commercial properties in Dalian	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	–	121,773	14,926	136,699
Exchange realignment	**602**	4,131	656	5,389
Development costs paid	–	8,147	12,736	20,883
Cost transferred upon completion	**72,909**	–	–	72,909
Fair value changes on investment properties	**42,504**	28,099	2,293	72,896
At 31 December 2013	**116,015**	162,150	30,611	308,776
Exchange realignment	**(2,856)**	(4,383)	(762)	(8,001)
Development costs paid	**7,816**	49,738	733	58,287
Fair value changes on investment properties	**(7,489)**	15,245	651	8,407
At 31 December 2014	**113,486**	222,750	31,233	367,469

18. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2013, deposit paid for acquisition of land use rights represented RMB190,800,000 (approximately HK$244,377,000) paid to Dalian Jinzhou New District Land and Housing Authority ("Dalian Land and Housing Authority") as a deposit for the acquisition of a piece of land situated at Xiao Yao Bay of Jin Zhou Xin Qu in Dalian City ("the Land"). On 21 February 2013, a strategic co-operation framework agreement was entered into between the Company and Accord Sunny Investment Limited ("Accord Sunny"), an independent third party not connected to the Group, pursuant to which a preliminary cooperation framework in relation to the acquisition of the Land and the investment of the construction on the Land had been agreed. The consideration for acquisition of the Land shall be paid by Accord Sunny or its wholly-owned subsidiary. Since the conditions stated in the sales and purchase agreement of the land use rights had not been fulfilled, the relevant acquisition had been cancelled. During the year ended 31 December 2014, the deposit has been fully refunded by Dalian Land and Housing Authority.

On 23 December 2014, the Group signed sales and purchase agreement with the PRC local district authorities for acquisition of land use rights of approximately 91,500 sq. m. at a consideration of RMB17,841,000 (equivalent to approximately HK$22,289,000). Up to the approval date of the consolidated financial statements, the Group is in the process of obtaining the land use right certificates.

As at 31 December 2014, the Group paid land auction deposit of approximately RMB27,072,000 (equivalent to approximately of HK$33,821,000) to acquire pieces of industrial land situated at Wusih, the PRC, to develop shallow ground source energy systems. Up to the approval date of the consolidated financial statements, land with approximately 38,000 sq. m. has been granted to the Group.

19. GOODWILL

	HK$'000
COST AND CARRYING VALUES	
At 1 January 2013, 31 December 2013 and 1 January 2014	445,850
Arising on acquisition of a subsidiary *(Note 41)*	19,910
At 31 December 2014	465,760

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

The Group conducted impairment review on goodwill attributable to the shallow ground source energy segment at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of the shallow ground source energy segment has been determined based on a value-in-use calculation. That calculation used cash flow projections based on financial budgets approved by the directors of the Company covering a three-year period, with discount rate of 13.43% (2013: 12.91%) per annum. The cash flows beyond the three-year period were extrapolated using a steady growth rate of 3% (2013: 3%). The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculation related to the estimation of cash flows included gross margin and discount rate. Gross margin represents budgeted gross margin, which is based on past performance and the management's expectation for the market development. The discount rate used is pre-tax rates that reflect current market assessments of the risks specific to the relevant industry. Management believed that any reasonably possible change in any of these assumptions would not cause the aggregate carrying values of shallow ground source energy segment to exceed its aggregate recoverable amount.

20. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 January 2013, 31 December 2013 and 31 December 2014	6,205
AMORTISATION	
At 1 January 2013, 31 December 2013 and 31 December 2014	6,205
CARRYING VALUES	
At 31 December 2013 and 2014	–

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

21. INTERESTS IN ASSOCIATES

	2014 HK$'000	2013 HK$'000
Cost of unlisted investments in associates	34,566	73,862
Share of post-acquisition results and other comprehensive income, net of dividends received	(10,204)	(16,292)
	24,362	57,570

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

Name of entity	Form of entity	Place of incorporation and operation	Registered share capital	Proportion of ownership interest and proportion of voting rights held by the Group 2014	2013	Principal activity
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd)* ("BEHP")	Limited liability company	PRC	US$300,000	49%	49%	Production and sales of machineries ground source energy systems
恒有源投資管理有限公司 (Ever Source Investment Management Company Limited)* ("Ever Source Investment")	Limited liability company	PRC	RMB79,000,000	–#	37.97%	Provision of business planning, consulting and management services and promotion

* English name is for identification purpose only.

\# On 24 January 2014, the Group acquired the remaining 62.03% equity interest in Ever Source Investment. Afterwards, Ever Source Investment is a wholly-owned subsidiary of the Group.

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

BEHP	2014 HK$'000	2013 HK$'000
Non-current assets	5,185	5,463
Current assets	69,670	66,928
Current liabilities	(26,120)	(21,096)
Non-current liabilities	–	–

21. INTERESTS IN ASSOCIATES *(Continued)*

	2014 HK$'000	2013 HK$'000
Revenue	**54,473**	52,340
Profit for the year	**188**	177
Other comprehensive (expense) income for the year	**(2,750)**	2,971
Total comprehensive (expense) income for the year	**(2,562)**	3,148
Dividend received from the associate during the year	**–**	–

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

	2014 HK$'000	2013 HK$'000
Net assets of the associate	**48,735**	51,295
Proportion of the Group's ownership interest in BEHP	**49%**	49%
Goodwill	**482**	482
Carrying amount of the Group's interest in BEHP	**24,362**	25,617

Ever Source Investment	2014 HK$'000	2013 HK$'000
Non-current assets	**N/A**	94,579
Current assets	**N/A**	1,448
Current liabilities	**N/A**	(11,873)
Non-current liabilities	**N/A**	–

21. INTERESTS IN ASSOCIATES *(Continued)*

	Period ended 24 January 2014 *HK$'000*	Year ended 31 December 2013 *HK$'000*
Revenue	–	–
Loss for the year	–	(16,655)
Other comprehensive income for the year	–	2,679
Total comprehensive expense for the year	–	(13,976)
Dividend received from the associate during the year	–	–

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

	2014 *HK$'000*	2013 *HK$'000*
Net assets of the associate	–	84,154
Proportion of the Group's ownership interest in Ever Source Investment	**N/A**	37.97%
Carrying amount of the Group's interest in Ever Source Investment	–	31,953

On 24 January 2014, the Group acquired the remaining 62.03% equity interest in Ever Source Investment. Afterwards, Ever Source Investment is a wholly-owned subsidiary of the Group and a loss on deemed disposal of HK$5,845,000 was resulted. The details are stated as below.

	HK$'000
Fair value of previously held interest in Ever Source Investment (*Note 41*)	25,513
Carrying amount of the Group's interests in Ever Source Investment	(31,358)
Loss on deemed disposal	(5,845)

22. AVAILABLE-FOR-SALE INVESTMENTS

	2014 HK$'000	2013 HK$'000
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost	37,979	512
Limited partnership, at cost	124,930	–
	162,909	512
Fund, at fair value	62,995	–
	225,904	512
Analysed for reporting purposes as:		
Current assets	124,930	–
Non-current assets	100,974	512
	225,904	512

Available-for-sale investments amounting to RMB30,000,000 (equivalent to approximately HK$37,479,000) (2013: Nil) represent the Group's 3.75% unlisted equity interest in the registered capital of 北京高良環保科技有限公司, a company incorporated in the PRC and is engaged in manufacturing and processing metal.

On 19 November 2014, the Group has committed to make an investment of RMB100,000,000 (equivalent to approximately HK$124,930,000) in 上海展天投資管理中心(有限合夥)("上海展天"), by way of a subscription for a limited partnership interest in 上海展天. As at 31 December 2014, the Group has contributed RMB100,000,000 (equivalent to approximately HK$124,930,000) to 上海展天.

During the year ended 31 December 2014, the Group subscribed the 華夏基金 from 中國建設銀行股份有限公司, with a total amount of RMB50,000,000 (equivalent to HK$62,465,000).

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

23. PREPAYMENTS

The prepayments represent the rental payment prepaid to a related company as the landlord for the warehouses and the properties sub-leased. The lease period were around 8 years commencing from July 2013 and thus an amount of HK$16,844,000 (2013: HK$20,841,000) is included under non-current assets. The prepayments due within one year of approximately HK$3,499,000 (2013: HK$3,346,000) as at 31 December 2014 has been included in prepayments under current assets (Note 28).

24. DEFERRED TAX

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

	Allowance for doubtful debts	Revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2013	21,876	(38,753)	(16,877)
Exchange realignment	582	(1,432)	(850)
Charged to consolidated statement of profit or loss for the year	(196)	(19,951)	(20,147)
At 31 December 2013	22,262	(60,136)	(37,874)
Exchange realignment	(290)	2,245	1,955
Charged to consolidated statement of profit or loss for the year (*Note 11*)	(3,862)	(4,977)	(8,839)
At 31 December 2014	18,110	(62,868)	(44,758)

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

	2014	2013
	HK$'000	*HK$'000*
Deferred tax assets	**18,110**	22,262
Deferred tax liabilities	**(62,868)**	(60,136)
	(44,758)	(37,874)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB280,936,000 (2013: RMB317,536,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. INVENTORIES

	2014	2013
	HK$'000	*HK$'000*
Raw materials	**29,906**	17,134
Finished goods	**41**	32
	29,947	17,166

26. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	HK$'000
At 1 January 2013	89,571
Exchange realignment	2,853
Additions	13,581
At 31 December 2013	106,005
Exchange realignment	(2,615)
Additions	1,339
At 31 December 2014	104,729

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

27. TRADE AND RETENTION RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Trade receivables	**122,997**	103,026
Less: allowance for doubtful debts	**(6,301)**	(10,416)
	116,696	92,610
Retention receivables	**51,570**	36,627
	168,266	129,237

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

27. TRADE AND RETENTION RECEIVABLES *(Continued)*

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**36,164**	23,749
91 to 180 days	**34,808**	44,336
181 to 365 days	**8,530**	6,479
Over 365 days	**37,194**	18,046
	116,696	92,610

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$79,258,000 (2013: HK$56,470,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

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

	2014	2013
	HK$'000	*HK$'000*
Over 120 days	**42,064**	38,424
Over 365 days	**37,194**	18,046
	79,258	56,470

The Group's neither past due nor impaired trade receivables of approximately HK$37,438,000 (2013: HK$36,140,000) mainly represented sales made to creditworthy customers for whom there was no recent history of default.

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

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**10,416**	8,560
Exchange realignment	**(235)**	271
Eliminated through deregistration of subsidiaries	–	(117)
Impairment losses recognised	**11,570**	11,466
Impairment losses reversed	**(15,450)**	(9,764)
At 31 December	**6,301**	10,416

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$6,301,000 (2013: HK$10,416,000) which have been placed in severe financial difficulties.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2014	2013
	HK$'000	*HK$'000*
Prepayments	**70,396**	12,342
Rental prepayments – current portion (*Note 23*)	**3,499**	3,346
Deposits	**25,851**	26,359
Other receivables	**45,078**	34,277
Less: allowance for doubtful debts	**(3,299)**	(3,302)
	141,525	73,022

The Group did not hold any collateral over these balances.

As at 31 December 2013, included in other receivables, approximately HK$16,092,000 was consideration receivable from the disposal of a subsidiary to be settled by transfer of properties. As at 31 December 2014, the ownership of the properties was transferred to the Group.

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

	2014	2013
	HK$'000	*HK$'000*
At 1 January	**3,302**	2,269
Exchange realignment	**(3)**	–
Impairment losses recognised	–	1,033
At 31 December	**3,299**	3,302

Included in the allowance for doubtful debts are individually impaired deposit and other receivables with an aggregate balance of approximately HK$3,299,000 (2013: HK$3,302,000) which have been placed in severe financial difficulties.

29. CONSIDERATION PAID FOR THE ACQUSITION OF A SUBSIDIARY/ REFUNDABLE DEPOSIT PAID FOR SETTING UP OF A JOINT VENTURE

(i) As at 31 December 2013, the Group held a 37.97% interest in Ever Source Investment and accounted for the investment as an associate. On 5 December 2013, the Group has entered into a sale and purchase agreement to acquire the remaining 62.03% equity interest in Ever Source Investment from 四博連, at a consideration of RMB49,000,000 (approximately HK$61,590,000). The consideration paid for the acquisition of Ever Source Investment was refundable and classified as current assets as at 31 December 2013. The acquisition was completed on 24 January 2014.

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

On 14 January 2014, the Group has entered into the sale and purchase agreement with Tianjin Rong Chuang Ao Cheng Investment Company Limited ("Rong Chuang"), a company independent to the Group incorporated in the PRC, for the sale and purchase of the rights to inject capital into the JV Company up to 49% ("Equity Interest"). The total consideration for the Equity Interest was the deposit already placed amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) plus an amount equal to 10.73% per annum on the deposit calculated from the date of the Group's contribution of RMB30,000,000 to the registered capital of the JV Company to the date of the Rong Chuang's payment of the deposit to the Group (the "Premium").

In March 2014, the deposit amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) together with an interest income of RMB2,549,000 (equivalent to approximately HK$3,210,000) (see Note 9) have been fully repaid by Rong Chuang.

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

	2014 HK$'000	2013 HK$'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**544,753**	574,655
Less: progress billings	**(213,405)**	(204,105)
	331,348	370,550
Analysed for reporting purposes as:		
Gross amounts due from customers for contract work	**343,659**	389,506
Gross amounts due to customers for contract work	**(12,311)**	(18,956)
	331,348	370,550

As at 31 December 2014, retentions held by customers for contract works amounted to approximately HK$3,782,000 (2013: HK$22,349,000). Advances received from customers for contract works included in deposits received amounted to approximately HK$2,334,000 (2013: HK$6,237,000). At the end of both reporting periods, the management expected that the advances received from customers for contract works would be realised within twelve months after the end of the respective reporting period.

During the year ended 31 December 2014, expense in respect of the uncertainty arises about the collectability of the balances amounting to approximately HK$51,308,000 (2013: HK$94,493,000) were recognised in the consolidated statement of profit or loss. These amounts are long outstanding and not expected to be fully recoverable. Based on past experience, the directors of the Company are of the opinion that no provision for the remaining balances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

31. HELD-FOR-TRADING FINANCIAL ASSETS

	2014 HK$'000	2013 HK$'000
Held-for-trading financial assets include		
Listed securities		
Equity securities listed in Hong Kong	**3,872**	40

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

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

As at 31 December 2014, cash held at non-bank financial institutions carried interest at 0.01% (2013: 0.0001%) per annum.

Short-term bank deposits with maturity less than 3 months carried prevailing market deposit rates from 0.69% to 2.75% (2013: 0.60% to 3.25%) per annum.

Bank balances and cash carried prevailing market deposit rates from 0.0001% to 0.35% (2013: 0.0001% to 0.35%) per annum.

At 31 December 2014, the Group's bank balances and cash denominated in RMB amounted to approximately RMB95,526,000 (2013: RMB395,909,000).

33. TRADE PAYABLES

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

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**14,273**	16,369
91 to 180 days	**11,965**	3,302
181 to 365 days	**9,024**	21,839
Over 365 days	**100,938**	83,953
	136,200	125,463

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

34. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Accrued liabilities	**95,168**	80,760
Deposits received	**30,475**	20,809
Receipt in advance – current portion (*Note 37*)	**2,844**	918
Other payables	**23,835**	67,459
	152,322	169,946

35. AMOUNTS DUE FROM (TO) RELATED COMPANIES

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

36. AMOUNTS DUE FROM (TO) ASSOCIATES

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

37. RECEIPT IN ADVANCE

The receipt in advance represents the rental receipt in advance for the investment properties. The lease period were 20 years commencing from the completion of the investment properties. The investment properties were completed and the lease has been commenced in December 2013 and the balance of approximately HK$9,446,000 (2013: HK$11,633,000) included under non-current liabilities represents rental receipt in advance for the lease payments due after one year. The receipt in the balance of advance due within one year of approximately HK$2,844,000 (2013: HK$918,000) as at 31 December 2014 has been included in receipt in advance under current liabilities (Note 34).

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

38. DEFERRED INCOME

	2014	2013
	HK$'000	*HK$'000*
At 1 January	7,741	7,463
Exchange realignment	(189)	223
Government grants received	973	1,369
Amortisation of deferred income on government grants	–	(1,314)
At 31 December	8,525	7,741

As at 31 December 2014, government grants of approximately HK$8,525,000 (2013: HK$7,741,000) were designated for certain research projects. The amount is stated as non-current liabilities as at 31 December 2014 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 2014.

39. BORROWINGS

	2014	2013
	HK$'000	*HK$'000*
Unsecured loan not repayable within one year	499,721	512,321

During the year ended 31 December 2013, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$499,721,000 (2013: HK$512,321,000)) from 寧波清能投資合夥企業(有限合夥), an independent third party not connected to the Group, through Bank of Communications Co., Ltd. The loan bear interest at 1 to 3 years benchmark lending interest rate of the Peoples' Bank of China and are repayable on 17 September 2016 according to the entrusted loan agreement. The proceeds were used to finance the working capital of the Group.

The effective interest rate during the year ended 31 December 2014 is 7.75% (2013: 7.75%).

40. SHARE CAPITAL

	Number of shares US$0.01 each		Share capital		Share capital	
	2014	2013	**2014**	2013	**2014**	2013
	'000	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares						
Authorised:						
At beginning and end of the year	**16,000,000**	16,000,000	**160,000**	160,000	**1,248,000**	1,248,000
Issued and fully paid:						
At 1 January	**2,902,827**	2,902,827	**29,028**	29,028	**226,053**	226,053
Issue of shares under the Company's share option scheme	**1,500**	–	**15**	–	**117**	–
At 31 December	**2,904,327**	2,902,827	**29,043**	29,028	**226,170**	226,053

Notes:

(a) On 29 July 2014, options were exercised to subscribe for 1,500,000 shares in the Company at a consideration of HK$639,000 of which HK$117,000 was credited to share capital and the balance of HK$522,000 was credited to the share premium.

(b) As at 31 December 2014, the total number of issued and fully paid shares included 8,560,000 ordinary shares repurchased prior to the end of the reporting period but cancelled subsequent to the end of the reporting period with the highest price of HK$0.355 and the lowest price of HK$0.335.

41. ACQUISITION AND DEREGISTRATION OF SUBSIDIARIES

(i) Acquisition of subsidiaries

As detailed in note 29(i) to the consolidated financial statements, the Group acquired the remaining 62.03% equity interest in Ever Source Investment for a cash consideration of RMB49,000,000 (equivalent to approximately HK$61,590,000). The acquisition has been accounted for using the acquisition method and completed on 24 January 2014. The amount of goodwill arising as a result of the acquisition was HK$19,910,000. Ever Source Investment is engaged in business planning, consulting and management services and promotion, and becomes a wholly-owned subsidiary of the Group since then. Ever Source Investment has a wholly -owned subsidiary, 北京京豐恒有源熱力科技有限公司 (collectively referred to as the "Ever Source Investment Group"). Ever Source Investment Group is engaged in the management of heating and cooling system for buildings with the application of geothermal energy in the PRC. Ever Source Investment Group was acquired to act as investment platform for the future expansion of the Group's operations.

Assets acquired and liabilities recognised at the date of the acquisition are as follows:

	Acquiree's fair value on acquisition *HK$'000*
Property, plant and equipment	56,204
Trade and retention receivables	18,724
Prepayments, deposits and other receivables	3,623
Cash and cash equivalents	303
Accrued liabilities, deposits received and other payables	(11,661)
	67,193

Goodwill arising on acquisition

	HK$'000
Cash consideration transferred	*61,590*
Plus: fair value of previously held interest (*Note 21*)	25,513
Less: net assets acquired	(67,193)
Goodwill arising on acquisition	19,910

Goodwill arose in the acquisition of Ever Source Investment Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Ever Source Investment Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

41. ACQUISITION AND DEREGISTRATION OF SUBSIDIARIES *(Continued)*

(i) Acquisition of subsidiaries *(Continued)*

Net cash outflow on acquisition of Ever Source Investment

	HK$'000
Cash consideration transfer	61,590
Less: deposit paid	(61,590)
Less: cash and cash equivalents balances acquired	(303)
	(303)

Included in the loss for the year is HK$2,045,000 attributable to the additional business generated by Ever Source Investment Group. No revenue for the year was generated from Ever Source Investment Group.

Had the acquisition been completed on 1 January 2014, total revenue of the Group for the year would have been HK$283,601,000, and loss for the year would have been HK$48,959,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and loss of the Group had Ever Source Investment been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

(ii) Deregistration of subsidiaries

For the year ended 31 December 2014

During the year ended 31 December 2014, the Group deregistered a non wholly-owned subsidiary, 北京恒有源冷熱系統科技發展有限公司.

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

	HK$'000
Net liabilities disposed of:	
Plant and equipment	3
Inventories	192
Trade and retention receivables	291
Trade and payables	(84)
Accrued liabilities, deposits received and other payables	(379)
Tax payables	(345)
Net liabilities	(322)
Non-controlling interests	(167)
Release of exchange translation reserve	(331)
Gain on deregistration	(820)

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

41. ACQUISITION AND DEREGISTRATION OF SUBSIDIARIES *(Continued)*

(ii) Deregistration of subsidiaries *(Continued)*

For the year ended 31 December 2013

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

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

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

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

42. COMMITTMENTS

(i) Operating lease

The Group as lessor

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

	2014	2013
	HK$'000	*HK$'000*
Within one year	**9,476**	10,058
In the second to fifth years, inclusive	**43,432**	43,265
Over five years	**202,093**	80,646
	255,001	133,969

The Group as lessee

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

	2014	2013
	HK$'000	*HK$'000*
Within one year	**2,235**	3,299
In the second to fifth years, inclusive	**2,339**	3,960
Over five years	**1,723**	2,339
	6,297	9,598

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

(ii) Others

	2014	2013
	HK$'000	*HK$'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– Investment properties under construction	**23,612**	3,020
– Acquisition of property, plant and equipment	**–**	1,934
	23,612	4,954

43. SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan 2010

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

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

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

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

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

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

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

Share Option Plan 2010 *(Continued)*

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

Batch	Date of grant	Vesting period	Exercise period	Exercise price per share *(Note)*
Grant 1	9 September 2010	N/A*	9 September 2010 to 8 September 2020	HK$0.4260
		9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	
		9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	
		9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	
Grant 2	6 February 2013	N/A*	6 February 2013 to 5 February 2015	HK$0.4260
		6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	
Grant 3	11 August 2014	N/A*	11 August 2014 to 10 August 2016	HK$0.4550
		11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	

* 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.

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

Share Option Plan 2010 *(Continued)*

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

Year ended 31 December 2014

Date of grant	Outstanding at 1 January 2014	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2014
Directors					
9 September 2010	30,100,000	–	–	–	30,100,000
6 February 2013	28,400,000	–	–	–	28,400,000
11 August 2014	–	28,984,000	–	–	28,984,000
	58,500,000	28,984,000	–	–	87,484,000
Employees					
9 September 2010	129,892,000	–	–	–	129,892,000
6 February 2013	158,600,000	–	–	–	158,600,000
11 August 2014	–	191,016,000	–	–	191,016,000
	288,492,000	191,016,000	–	–	479,508,000
Others					
9 September 2010	5,500,000	–	(1,500,000)	(4,000,000)	–
11 August 2014	–	62,000,000	–	–	62,000,000
	5,500,000	62,000,000	(1,500,000)	(4,000,000)	62,000,000
	352,492,000	282,000,000	(1,500,000)	(4,000,000)	628,992,000
Exercisable at the end of year					487,992,000
Weighted average exercise price	HK$0.426	HK$0.455	HK$0.426	HK$0.426	HK$0.439

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

Share Option Plan 2010 *(Continued)*

Year ended 31 December 2013

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

For the share options granted on 11 August 2014, 6 February 2013 and 9 September 2010, the fair values were calculated using the Black-Scholes Option Pricing Model, Trinomial Option Pricing Model and Binomial Option Pricing Model respectively. The inputs into the model were as follows:

	9 September 2010	6 February 2013	11 August 2014
Share price on the date of grant	HK$0.415	HK$0.425	HK$0.455
Exercise price	HK$0.426	HK$0.426	HK$0.455
Expected volatility	72%	43.77%	33.86%
Expected life	8.5 years	2 years	2 years
Risk-free rate	1.95%	0.258%	0.361%
Expected dividend yield	0%	0%	1.09%

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

The Group recognised the total expense of approximately HK$16,865,000 for the year ended 31 December 2014 (2013: HK$20,139,000) in relation to share options granted by the Company.

44. RETIREMENT BENEFITS SCHEME

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

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

The total expenses recognised in profit or loss of HK$9,176,000 (2013: HK$7,133,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

45. RELATED PARTY TRANSACTIONS

(a) Prepayments to a related company, consideration paid to a related company for acquisition of a subsidiary, amounts due from (to) related companies and associates are included in the consolidated statement of financial position. The terms are set out in notes 23, 28, 29, 35 and 36 respectively.

45. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Notes	2014 HK$'000	2013 HK$'000
Operating lease payments paid to a related company		**5,021**	4,304
Rental income from an associate		–	(321)
Sales to related companies*		**(6,276)**	(1,777)
Sales of plant and machinery to a director		–	(340)
Compensation received from an associate		–	(845)
Possession charge income from a related company		–	(2,031)
Sales of a portion of investment properties to a related company	17	–	(327,954)
Sales of shallow ground source energy utilisation system to a related company		–	(75,772)
Acquisition of office building from a related company	16	–	185,196
Refund of receipt in advance to a related company	37	–	103,104
Consideration paid for the acquisition of a subsidiary	29(i)	–	62,759
Compensation paid to a related company		–	5,575
Consultancy fee paid to a related company		–	9,725
Purchase from an associate		**10,418**	9,093
Technical service fee received from an associate		**(1,205)**	–

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

* The transactions also constituted continuing connected transaction entered into during the year ended 31 December 2014 as defined in Chapter 20 of the GEM Listing Rules.

(c) Included in trade and retention receivables, there is balance amounted to approximately HK$549,000 (2013: HK$1,103,000) with a related company, 中節能(蘇州)環保科技產業園有限公司 ("中節能(蘇州)"). The balance is in trade nature which is unsecured, interest-free and with credit period of 180 days. 中節能(蘇州) is a fellow subsidiary of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd, the substantial shareholder of the Group.

(d) Compensation of key management personnel

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

	2014 HK$'000	2013 HK$'000
Short-term benefits	**8,730**	8,461
Retirement benefits scheme contributions	**43**	30
Share-based payment	**1,591**	3,307
	10,364	11,798

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

46. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2014, the Group has acquired 62.03% equity interest in Ever Source Investment for a cash consideration of RMB49,000,000 (equivalent to approximately HK$61,590,000). The cash consideration has been paid in the year ended 31 December 2013 and has been recognised as a deposit paid. The deposit paid and partial net cash outflow on acquisition of Ever Source Investment for the year ended 31 December 2014 was netted off without cash flows.

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

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2014**	2013
		HK$'000	*HK$'000*
Non-current Assets			
Property, plant and equipment		**230**	747
Deposit paid for acquisition of land use rights		-	244,377
Interests in subsidiaries	*(a)*	**836,134**	836,134
		836,364	1,081,258
Current Assets			
Prepayments, deposits and other receivables		**969**	4,692
Amounts due from subsidiaries	*(a)*	**406,372**	256,021
Bank balances and cash		**76,464**	29,350
		483,805	290,063
Current Liabilities			
Accrued liabilities and other payables		**2,106**	2,002
Amounts due to subsidiaries	*(b)*	**36,485**	55,985
		38,591	57,987
Net Current Assets		**445,214**	232,076
Net Assets		**1,281,578**	1,313,334
Capital and Reserves			
Share capital		**226,170**	226,053
Reserves	*(c)*	**1,055,408**	1,087,281
Total Equity		**1,281,578**	1,313,334

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

Notes:

(a) Interests in subsidiaries

	Notes	**2014**	2013
		HK$'000	*HK$'000*
Unlisted investments, at cost		**43,437**	43,437
Amounts due from subsidiaries – non-current	*(i)*	**1,023,585**	1,023,585
Amounts due from subsidiaries – current	*(ii)*	**406,372**	256,021
		1,473,394	1,323,043
Less: Impairment loss recognised on investment		**(43,437)**	(43,437)
Impairment loss recognised on amounts due from subsidiaries – non-current		**(187,451)**	(187,451)
		(230,888)	(230,888)
		1,242,506	1,092,155
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**406,372**	256,021
		1,242,506	1,092,155

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

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

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

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

Notes: (Continued)

(c) Reserves

	Share premium *(Note i)* HK$'000	Contributed surplus *(Note ii)* HK$'000	Treasury shares *(Note 40)* HK$'000	Share-based payment reserve HK$'000	Capital reserve *(Note iii)* HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	893,207	154,381	–	33,196	32,235	–	(10,561)	1,102,458
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(29,582)	(29,582)
Recognition of share-based payment expenses	–	–	–	20,139	–	–	–	20,139
Dividends recognised as distribution	(11,611)	–	–	–	–	–	–	(11,611)
Exchange differences arising on translation	–	–	–	–	–	5,877	–	5,877
Lapse of share options	–	–	–	(363)	–	–	363	–
At 31 December 2013	881,596	154,381	–	52,972	32,235	5,877	(39,780)	1,087,281
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(25,786)	(25,786)
Issue of shares upon exercise of share options *(Note 40)*	803	–	–	(281)	–	–	–	522
Repurchase of shares	–	–	(3,083)	–	–	–	–	(3,083)
Recognition of share-based payment expenses	–	–	–	16,865	–	–	–	16,865
Dividends recognised as distribution *(Note 14)*	(14,514)	–	–	–	–	–	–	(14,514)
Exchange differences arising on translation	–	–	–	–	–	(5,877)	–	(5,877)
Lapse of share options	–	–	–	(752)	–	–	752	–
At 31 December 2014	867,885	154,381	(3,083)	68,804	32,235	–	(64,814)	1,055,408

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

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

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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2014 and 2013 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion effective ownership interest held by the Company				Proportion of voting power held by the Company		Principal activities
				Directly		Indirectly				
				2014	2013	2014	2013	2014	2013	
II Networks International Limited##	BVI	Ordinary shares	US$166,667	100%	100%	–	–	100%	100%	Investment holding and trading of securities
北京北控恒有源科技發展有限公司 (Beijing Enterprises Ever Source (Beijing) Company Limited*) #	The PRC	Registered capital	US$3,000,000	–	–	99.97%	99.97%	100%	100%	Technical know-how holding
北京恒有源物業管理有限公司 (Beijing Ever Source Property Management Limited*) #	The PRC	Registered capital	RMB3,000,000	–	–	94.80%	94.80%	100%	100%	Property management and technical support service
恒有源科技發展集團有限公司 (Ever Source Science and Technology Development Group Co., Ltd*) ("HYY")#	The PRC	Registered capital	RMB189,188,502	–	–	94.58%	94.58%	94.61%	94.61%	Production and sales of ground source energy systems
北京恒有源環境系統設備安裝工程有限公司 (Beijing Ever Source Environmental System Installation Limited*) #	The PRC	Registered capital	RMB50,000,000	–	–	94.58%	94.58%	100%	100%	Installation of energy systems
金恒源#	The PRC	Registered capital	RMB10,000,000	–	–	48.24%	48.24%	51%	51%	Production and sales of ground source energy system
恒潤豐置業(大連)有限公司 (Heng Run Feng Reality (Dalian) Company Ltd. *)("Heng Run Feng") #	The PRC	Registered capital	US$12,000,000	–	–	99.97%	99.97%	100%	100%	Properties investment and development
Guangsha#	The PRC	Registered capital	RMB3,000,000	–	–	–	–	–	–	Provision of design for general industrial and residential architectures.

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

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

* English name is for identification purpose only.

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

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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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

Principle activity	Place of incorporation and operation	Number of wholly-owned subsidiaries 2014	2013
Investment holding	Hong Kong	**10**	10
Investment holding	Cayman Islands	**1**	1
Investment holding	BVI	**12**	12
Properties investment and development	The PRC	**6**	6
		29	29

Principle activity	Place of incorporation and operation	Number of non-wholly-owned subsidiaries 2014	2013
Investment holding	Hong Kong	**2**	2
Investment holding	BVI	**1**	1
Production and sales of geothermal energy systems	The PRC	**12**	12
Property management and technical support service	The PRC	**1**	1
Properties investment and development	The PRC	**1**	1
Business planning, consulting and management services & promotion	The PRC	**1**	–
		18	17

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of effective interests held by non-controlling interest		Voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
						HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HYY	The PRC	**5.42%**	5.42%	**5.39%**	5.39%	**(864)**	9,001	**20,256**	21,404
金恒源	The PRC	**51.76%**	51.76%	**49%**	49%	**12,182**	12,191	**29,986**	18,336
Guangsha (i)	The PRC	**100%**	100%	**100%**	100%	**(3,441)**	–	**251**	3,762
Individually immaterial subsidiaries with non-controlling interests						**(2,568)**	(23,702)	**(9,561)**	(5,544)
						5,309	(2,510)	**40,932**	37,958

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

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

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

HYY

	2014 *HK$'000*	2013 *HK$'000*
Non-current assets	**870,084**	514,207
Current assets	**770,106**	1,023,616
Current liabilities	**(664,808)**	(535,500)
Non-current liabilities	**(515,792)**	(530,476)
Equity attributable to owners of the Company	**439,334**	450,443
Non-controlling interests	**20,256**	21,404

	2014 *HK$'000*	2013 *HK$'000*
Revenue	**131,837**	96,824
Expenses	**(147,775)**	(185,865)
(Loss) profit for the year	**(15,938)**	166,062
(Loss) profit attributable to owners of the Company	**(15,074)**	157,061
(Loss) profit attributable to the non-controlling interests	**(864)**	9,001
(Loss) profit for the year	**(15,938)**	166,062
Other comprehensive (expense) income to owners of the Company	**(4,970)**	7,458
Other comprehensive (expense) income to the non-controlling interests	**(285)**	427
Other comprehensive (expense) income for the year	**(5,255)**	7,885

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

HYY

	2014	2013
	HK$'000	*HK$'000*
Total comprehensive (expense) income to owners of the Company	**(20,044)**	164,519
Total comprehensive (expense) income to the non-controlling interests	**(1,149)**	9,428
Total comprehensive (expense) income for the year	**(21,193)**	173,947
Dividend paid to non-controlling interests	**–**	–
Net cash outflow from operating activities	**(10,103)**	(88,712)
Net cash inflow (outflow) from investing activities	**98,306**	(499,238)
Net cash (outflow) inflow from financing activities	**(39,378)**	533,222
Net cash inflow (outflow)	**48,825**	(54,728)

金恒源

	2014	2013
	HK$'000	*HK$'000*
Non-current assets	**144**	309
Current assets	**145,691**	105,485
Current liabilities	**(87,397)**	(69,863)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**28,452**	17,595
Non-controlling interests	**29,986**	18,336

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

金恒源

	2014 HK$'000	2013 HK$'000
Revenue	**36,767**	33,865
Expenses	**(13,232)**	(10,314)
Profit for the year	**23,535**	23,553
Profit attributable to owners of the Company	**11,353**	11,362
Profit attributable to the non-controlling interests	**12,182**	12,191
Profit for the year	**23,535**	23,553
Other comprehensive (expense) income to owners of the Company	**(495)**	327
Other comprehensive (expense) income to the non-controlling interests	**(532)**	352
Other comprehensive (expense) income for the year	**(1,027)**	679
Total comprehensive income to owners of the Company	**10,858**	11,689
Total comprehensive income to the non-controlling interests	**11,650**	12,543
Total comprehensive income for the year	**22,508**	24,232
Dividend paid to non-controlling interests	**–**	–
Net cash (outflow) inflow from operating activities	**(557)**	369
Net cash inflow (outflow) from investing activities	**1,963**	(19,067)
Net cash inflow from financing activities	**–**	18,692
Net cash inflow (outflow)	**1,406**	(6)

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Guangsha

	2014 *HK$'000*	2013 *HK$'000*
Non-current assets	**56**	51
Current assets	**18,144**	21,462
Current liabilities	**(17,949)**	(17,751)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**–**	–
Non-controlling interests	**251**	3,762

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

Guangsha *(Continued)*

	2014	2013
	HK$'000	*HK$'000*
Revenue	**5,197**	10,227
Expenses	**(8,638)**	(10,356)
Loss for the year	**(3,441)**	–
Loss attributable to owners of the Company	**–**	–
Loss attributable to the non-controlling interests	**(3,441)**	–
Loss for the year	**(3,441)**	–
Other comprehensive income to owners of the Company	**–**	–
Other comprehensive income to the non-controlling interests	**(72)**	107
Other comprehensive income for the year	**(72)**	107
Total comprehensive expense to owners of the Company	**–**	–
Total comprehensive income to the non-controlling interests	**(3,513)**	107
Total comprehensive income for the year	**(3,513)**	107
Dividend paid to non-controlling interests	**–**	–
Net cash inflow from operating activities	**(598)**	180
Net cash outflow from investing activities	**(687)**	(845)
Net cash inflow from financing activities	**–**	–
Net cash outflow	**(1,285)**	(665)

49. EVENTS AFTER THE REPORTING PERIOD

On 31 December 2014, an agreement was entered into between the Group, a vendor, Hong Kong Goodway International Holdings Limited and a guarantor, Mr. Chen Zaixian, pursuant to which the Group has conditionally agreed to purchase and the vendor have conditionally agreed to sell 100% equity interest of Goodway (Hangzhou) Biotechnology Ltd. ("Hangzhou Goodway"), indirectly acquire the land and building held by Hangzhou Goodway, for the consideration of RMB93,000,000 (equivalent to approximately HK$116,250,000, which shall be satisfied by cash.

Up to the approval date of the consolidated financial statements, the acquisition is yet to be completed.

List of Major Properties Held by the Group

Location	Approximate gross floor area (square meter)	Group's interest	Land use	Term of lease	Stage of completion	Participated completion
Building						
No. 102 Xingshikou Road, Haidian District, Beijing, the PRC	5,628.82	100%	Office and industrial	Medium	Completed	–
Investment property						
Certain portion in No. 3 Experimental Building and ancillary office located at No. 80 Xingshikou Road, Haidian District, the PRC	7,974.22	100%	Industrial	Medium	Completed	–
Investment property under construction and development						
Xianyuwan Village, Xianyuwan Town, Wafangdian City, Dalian, Liaoning Province, the PRC	173,289	100%	Residential and Commercial	Medium	Planning in progress	December 2016