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

CLEAN ENERGY

TECHNOLOGY AND RESOURCES LINKS

Annual Report 2015

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

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BOARD OF DIRECTORS

Executive directors

Liu Dajun
Xu Shengheng
Chan Wai Kay Katherine
Zang Yiran

Non-executive directors

Zhao Youmin
Daiqi

Independent non-executive directors

Zhang Honghai
Jia Wenzeng
Wu Desheng

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square
P.O. Box 2804
KY1-1112
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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99 Queen's Road Central
Central
Hong Kong

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Zhang Honghai
Wu Desheng

REMUNERATION COMMITTEE

Zhang Honghai *(Chairman)*
Liu Dajun *(Deputy Chairman)*
Xu Shengheng *(Deputy Chairman)*
Jia Wenzeng
Wu Desheng

NOMINATION COMMITTEE

Xu Shengheng *(Chairman)*
Liu Dajun *(Deputy Chairman)*
Zhang Honghai
Jia Wenzeng
Wu Desheng

AUTHORISED REPRESENTATIVES

Xu Shengheng
Wong Lai Yuk

PRINCIPAL BANKER

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISER

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

AUDITORS

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

STOCK CODE

8128

COMPANY WEBSITE

www.cgsenergy.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Ground Source Energy Industry Group Ltd. (the "Company"), I would like to report to the shareholders the final results of the Company and its subsidiaries (collectively referred to as "CGSE" or the "Group") for the year ended 31 December 2015 (the "Review Period").

The past one year has witnessed deepened concern and awareness aroused from both the government and the people of China over the issue and impact of severe smog pollution. Governments at all levels together with professional experts are taking every means to cure smog. In this general context, the Company seizes the opportunity to actively engage with relevant competent authorities such as the National Development and Reform Committee ("NDRC"), Ministry of Environmental Protection, Ministry of Housing and Urban-Rural Development as well as the Ministry of Science and Technology, with the endeavor to widely promote the combustion-free approach of building heating by using shallow ground source energy as the substitute energy. We have submitted technological verifications and statistical analysis on the core technology of the Company, namely the single-well circulation heat exchange technology, to the competent authorities. All efforts start to pay off. As of now, the NDRC has made a clear instruction to encourage some towns and cities that are listed in the second batch of pilot areas for new urban construction to promote application of single-well circulation technology using shallow ground source energy for intelligent heating of buildings and rigorously push forward the development of new industry of integrated heating and cooling with ground source energy. In addition, the Company has also entered into cooperative agreements with some local governments in China to build demonstrative zones in the localities for the use of ground source energy. All these follow the affirmation and strong support from the Chinese government on the development of ground source energy as well as the core technology and the products of the Company.

In parallel of the above efforts, we have input great amount of resources to improve and upgrade our product series to cater various needs of our clients, actively engaged in R&D of ground source energy collection technology to fuel innovation, and adapted to different market domain with different business models. By enhancing exposures, the Company seeks for building up its brand image. Strategic partnership and cooperative alliance have been set up between the Company and many professional institutes to achieve rapid expansion capacity. In addition, the Company pursues to establish local industrial standards to reinforce its leading role in the sector. Through rapid marketing expansion to increase its market shares as well as strengthened ability to produce better value for its shareholders.

In the Review Period, despite economic slow-down and sluggish real estate sector, the Company has achieved a revenue of HK$319.354 million, recording an increase of 12.6% over the same period of 2014, showing a gradual turn for better of the Company's business. However, due to the fiscal provision, the overall performance of the Company booked a deficit, lower than expected. The Company by nature lives in an emerging industry that combines science, technology and engineering. Technology and its related products require long-time input of labor and capital resources, as well as knowledge, before it gets to perfection and popularization. In the long time span, the Company has made unremitting endeavors to continuously promote the use of ground source energy, aiming at convincing the country and the people for their recognition of this is indispensable clean substitute energy.

With constant increase in buildings resulted from accelerated urbanization process, escalating request from the people for clean energy and pressing international commitment for emission reduction bearing by the national government, the Company is faced with best prospect of its business booming. Based on the original technology with constant innovation, well-knit operating and audacious expansion approach, the Company has been heading forward for leap-frog development with the basis of technology innovations, rapid enhancement of the internal management ability as well as the external market competitiveness. Besides, it is always our commitment to be better in carrying out our social responsibility, in protecting environment and in improving the health of our offspring and the earth that we inhabit.

Taking the chance, please allow me to extend appreciations to the employees and directors for their contributions and hardworking, to all our clients, business partners and shareholders for your sturdy support to the Group.

Sincerely,

LIU Dajun
Joint Chairman and Executive Director

Hong Kong, 30 March 2016

FINANCIAL REVIEW

For the year ended 31 December 2015, the loss attributable to the owners of the Company amounted to approximately HK$47.506 million and revenue amounted to HK$319.354 million as compared with the loss attributable to the owners of the Company amounted to HK$53.506 million and revenue amounted to approximately HK$283.601 million for the year ended 31 December 2014.

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 2015 and the year ended 31 December 2014.

	Year ended 31 December 2015		Year ended 31 December 2014	
	HK$'000	*%*	*HK$'000*	*%*
Turnover:				
– Shallow ground source energy	**298,820**	**94**	268,471	95
– Properties investment and development	**20,534**	**6**	15,130	5
– Total turnover	**319,354**	**100**	283,601	100

OPERATION RESULTS

Total revenue from operations for the year ended 31 December 2015 was approximately HK$319.354 million as compared with HK$283.601 million for the year ended 31 December 2014. Revenue from the traditional shallow ground source energy utilisation systems has increased during the year due to a marketing center was set up in September 2015 which strengthened sale and promotion accordingly. Besides more sales staff were recruited, hence, the Group secured additional projects. Thus, the revenue increased during the year.

During the year ended 31 December 2015, the Group recorded a net loss of approximately HK$48.106 million compared with net loss of approximately HK$48.959 million for the year ended 31 December 2014.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2015 was approximately HK$119.733 million, represented the gross profit margin of 37.5% (2014: approximately HK$87.287 million, represented the gross profit margin of 30.8%). The improvement of gross profit margin was mainly due to the fact that operation and maintenance centers were set up in Xuzhou, Pizhou and Dalian in order to strengthen the cost control in the districts outside Beijing. Furthermore, less provision was made for the amounts due from customers for contract work during the year as compared with that of last year.

Management Discussion and Analysis

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year increased by approximately HK$5.262 million, or 22% as compared with that of the year ended 31 December 2014. The selling and distribution expenses increased was mainly attributable to the increase in marketing staff for the promotion of the business, especially Ground Source Heating Devices, hence wages and related selling and distribution expenses rose this year.

Administrative expenses amounted to approximately HK$121.798 million and HK$97.810 million for the years ended 31 December 2015 and 2014 respectively. The increase in administrative expenses as compared with last financial reporting period was mainly due to the increase in depreciation and the consultancy services fee.

During the year ended 31 December 2015, the Group incurred share-based payments of HK$7.747 million which was due to the fact that the Group granted share options to directors, officers, employees and business partners in previous year.

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 an 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 trading of securities and other types of investment 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 Pizhou 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 sale under development had applied the Group's HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology for the heating/cooling supply to promote shallow 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 2015 was approximately HK$153.640 million (2014: approximately HK$836.316 million). As at 31 December 2015, the Group had cash and bank balances of approximately HK$136.199 million (2014: approximately HK$309.814 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2015, no group assets have been charged (2014: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimize exposure to foreign exchange risks.

As at 31 December 2015, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank loans) to the equity (including all capital and reserves) of the Company, increased to 32.3 % as at 31 December 2015 (2014: 31.9%). The gearing ratio was maintained at similar level as compared with last year.

EMPLOYEES

As at 31 December 2015, the Group has approximately 670 employees (2014: approximately 600). 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 44 to the consolidated financial statements of this report.

CONTINGENT LIABILITIES

As at 31 December 2015, 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 2015 (2014: Nil).

Management Discussion and Analysis

CAPITAL STRUCTURE

On 2 June 2015, 6 July 2015 and 6 August 2015, options were exercised to subscribe for totally 55,608,000 shares in the Company at a consideration of approximately HK$24,904,000 of which approximately HK$4,337,000 was credited to share capital and the balance of approximately HK$20,567,000 was credit to the share premium. All the issued shares rank pari passu with the existing shares.

During the year ended 31 December 2015, 59,688,000 ordinary shares were repurchased and cancelled prior to the end of the reporting period with the highest price of HK$0.41 and the lowest price of HK$0.28. As at 31 December 2015, the total number of issued and fully paid shares of 2,891,687,117 which included 9,344,000 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$0.36 and the lowest price of HK$0.33.

During the year ended 31 December 2015, 8,560,000 ordinary shares repurchased during the year ended 31 December 2014 were cancelled.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 43 to the consolidated financial statements of this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

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

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisitions and disposal transactions are set out in note 42 to the consolidated financial statement of this report.

BUSINESS REVIEW AND OUTLOOK

The Group makes dedicated efforts on the research and development of shallow ground source energy and its application in providing heating for buildings as substitute energy. With its original technology of single-well ground source energy collection technology, the Group has achieved industrialized development in using ground source energy to produce heating for buildings in a combustion-free way. The efforts is by nature a contributor to the ecological civilization construction and a propeller to the radical escalation of heating industry from a traditional combustion-based heating to an emerging industry featuring intelligent and integrated heating and cooling with ground source energy.

Shallow ground source energy is a low-grade and renewable heat energy of lower than 25°C normally lying around 200 meters under the ground surface. With the invention of heat pumps, ground source energy becomes substitute energy of heating for buildings.

The single-well heat circulation technology for ground source energy collection uses water as media to circulate in an entirely closed loop to achieve natural exchange of heat at the same source under dynamic equilibrium force. Rejection is fully made at the same geological layer and heat is extracted via pressure difference. As such, even in differentiated geological conditions, renewable shallow ground source energy of under 25°C can be gathered in safe, efficient, economical and pollution-free way.

In the reviewed period, Chinese government at all levels has reinforced its efforts in environmental improvement, especially in Beijing, Tianjin and Hebei for treating smog in a more scientific way. A major direction articulated by the National Development and Reform Committee for the second batch of pilot cities and townships is to promote intelligent heating and forcefully push forward the growth of emerging industry of integrated heating and cooling, namely to use shallow ground source energy collected by single-well circulation technology to produce heating and cooling for buildings in a combustion-free way. This will not only substantially boom up the ratio taken by renewable energy in the local energy consumption mix, but also radically solve the air pollution problem caused by combustion, and therefore remarkably uplift the living standard of urban and rural residence. (Quote from NDRC Doc No. [2015] 2665)

Boasting a full range of combustion-free heating products which are based on ground source energy (i.e., intelligent heating products), the Company has acquired the full capacity to meet all heating needs of buildings that are served by traditional heating. Up to now, the Company has outstood itself by realizing scaled demonstrative development and commercialization in intelligent heating for buildings that result in effective contribution to smog curbing.

Firstly, the HYY Ground Energy Heat Pump Environmental System, as an equivalence to the economical central heating system in the United States is a central heating system based on ground source energy to produce combustion-free intelligent heating for buildings. Shallow ground source energy, as a substitute energy is utilized to achieve building heating in a way free from pollution and emission. This is also a realization of differentiated utilization based on energy ratings. An outstanding feature of the system is the systematic control on heat provision to meet differentiated need of end users, while safeguarding smooth operation of the system and baseline energy consumption level.

Management Discussion and Analysis

Secondly, the HYY Heating Device for self-heating in rural areas is embedded with Chinese traditional value of being highly economical in energy consumption. By using ground source energy, the device relies on electric power instead of coal to achieve highly effective heating for rural households. Being user friendly, the HYY Heating Device manages to produce targeted heating for independent spaces in a measurable and economical way, bringing tangible benefits to users. The Device can not only ensure quality heating, but can be easily replicated and operated. Therefore, it is highly adaptable to differentiated need of various energy consumption behaviors, thus can saturate to the extent possible every individual heating request with lowered operation cost.

Thirdly, the HYY50-900MW Distributed Heating and Cooling Station, equivalent to traditional central heating stations in cities and townships is a full embodiment of graded energy utilization. The layout plan of heating stations shall be based on regional plans for energy consumption. The station is equipped with ground source energy collection points and heat pump stations and the system is mainly composed of five parts, namely Source, Station, Networks, Automation Control and Terminals. By Source, it means the sites for ground source energy collection, which is based on the Single-well Circulation of Heat Exchange Technology. By Station, it refers to heat pump stations that transfer shallow ground source energy into heat or cool power as needed by buildings. It simulates the boilers or coolers in traditional heating industry. Networks is a small intra-net of ground source energy that connects adjacent or differentiated stations to establish mutual backup and complement among individual and closed circular systems of the stations. Automation Control based on Intranet+ is the controlling system for the entire intelligent heating system. It works to control, manage and measure the heating as needed. Terminals are the terminal systems to serve end users.

Moreover, in cooperation with the Sichuan Changhong Company and by putting into full play of respective competitiveness and entitlements, we have set up module-type bases for systematic production of HYY Heating Device. After product upgrading, reliability and stability of Heating Device are further enhanced. The Device is selected as a recommended product that can achieve high efficiency in replacing coal consumption with electricity, and therefore included in the 2015 Product Catalogue of Beijing Heating Enterprises in heading on the Move of Reducing and Replacing Coals.

In 2015, against the sluggish economic backdrop in the world and the downturn risk in Chinese economy, we have made unremitted efforts toward rapid expansion of intelligent heating (combustion-free and ground energy-based) for buildings, by further solidifying foundations, continuously improving business modalities and constantly refining development route. In the past one year, we have been improving our product series and business modalities in correspondence to new update of market needs, and achieved steady growth and business expansion.

Looking into the future, the Company will continue to let technological innovation lead the way to growth. To boost internal capacity building of the company, we will keep on to the Code of Conduct for employees, putting working safety at the priority and industrial standards at the core to further consolidate basis and reinforce performance-based practices. In terms of external development, the Company will continue to closely follow market update and seize the current opportune chance to enlarge its market share in integrated heating and cooling sector by upgrading and refining its operation modes and promote energy revolution in building heating industry by expanding the application of shallow ground source energy.

Mr. Liu Dajun ("Mr. Liu"), aged 45, the joint chairman of the Board, the chief operating officer and executive director of the Company. Mr. Liu graduated from Changchun College of Geology and obtained a bachelor's degree in mining exploration. Mr. Liu obtained an EMBA degree from Guanghua School of Management of Peking University in 2006 and a doctoral degree in geological engineering from Jilin University in 2012, and is a senior engineer at professor level. Mr. Liu had served as technician and project manager of the Chinese Institute of Geo-exploration Technology (中國地質勘察技術院), professional engineer, project manager, domestic manager, assistant to general manager and deputy general manager of China Geo-Engineering Corporation (concurrently serving as chairman and general manager of CGC Road and Bridge Construction Co., Ltd. during the same period). Mr. Liu is currently the director of CECEP Environment Protection Investment Development (Jiangxi) Co., Ltd., a fellow subsidiary of China Energy Conservation and Environmental Protection (Hong Kong) Investment Co., Ltd., which is a substantial shareholder of the Company.

Mr. Xu Shengheng ("Mr. Xu"), aged 53, the joint chairman of the Board, 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 16 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.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 56, 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. Zang Yiran ("Mr. Zang"), aged 37, 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 44, 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 33, 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 63, 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. He is currently 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 72, 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 executive director of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China, executive director of China Association of Refrigeration, executive director of the Civil Engineering & Architectural Society of Beijing, the Education Supervisor and Adjunct Professor of Tsinghua University, Beijing University of Civil Engineering and Architecture and Xi'an Jiaotong University. Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963.

He worked as a technician at the Design Institute for Glass Industry of the Ministry of Construction between 1963 and 1971. Since 1971, he has been serving in various 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 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 49 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2015 by business segments are set out in note 8 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2015 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 31 to 131.

The directors do not recommend the payment of any dividend for the year ended 31 December 2015.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2015 and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 5 to 10. An analysis of the Group's performance during the year ended 31 December 2015 using financial key performance indicators is provided in the "Summary of Financial Information" set out below. In addition, the financial risk management objectives and policies of the Group can be referred in note 6 to the consolidated financial statements.

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 2015, 2014 and 2013, for the nine months ended 31 December 2012, for the year ended 31 March 2012 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
	2015	2014	2013	2012	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Restated)
Turnover	**319,354**	283,601	363,662	230,990	318,079
(Loss) profit before tax	**(22,959)**	(19,293)	155,249	73,501	98,255
Income tax expense	**(25,147)**	(29,666)	(55,949)	(27,445)	(43,895)
(Loss) profit for the year/period	**(48,106)**	(48,959)	99,300	46,056	54,360
Attributable to:					
Owners of the Company	**(47,506)**	(53,506)	101,810	45,951	45,204
Non-controlling interests	**(600)**	4,547	(2,510)	105	9,156
	(48,106)	(48,959)	99,300	46,056	54,360

Report of the Directors

Assets, liabilities and non-controlling interests

	As at 31 December				As at 31 March
	2015	2014	2013	2012	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Restated)
Total assets	**2,581,798**	2,618,847	2,695,296	1,990,813	1,479,445
Total liabilities	**(1,061,347)**	(1,009,316)	(1,014,726)	(450,995)	(340,144)
Non-controlling interests	**(44,423)**	(40,932)	(37,958)	(39,680)	(39,168)
Equity attributable to equity holders of the Company	**1,476,028**	1,568,599	1,642,612	1,500,138	1,100,133

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued at 31 December 2015. The revaluation resulted in a loss over book values amounting to approximately HK$8,138,000, which has been charged 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$13,235,000. 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 2015 are set out on page 132 of the annual report.

SHARE CAPITAL

As at 31 December 2015, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 2,891,687,117 ordinary shares of US$0.01 each, including 9,344,000 ordinary shares repurchased by the Company during the year ended 31 December 2015 and subsequently cancelled on 26 February 2016.

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in note 41 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 2015, 69,032,000 shares of US$0.01 each were repurchased by the Company at prices ranging from HK$0.28 to HK$0.41 per share through the Stock Exchange.

CHARITY DONATIONS

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 48 to the 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 2015, the Company's reserve available for distribution amounted to approximately HK$814,250,000 (2014: HK$803,071,000) after net off the accumulated losses of the Company.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended 31 December 2015, the Group was not aware of any non-compliance with any relevant laws and regulations that has a significant impact on it.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 15% (2014: 10%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 4% (2014: 3%). Purchases from the Group's five largest suppliers accounted for approximately 25% (2014: 22%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 13% (2014: 11%).

Report of the Directors

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. Liu Dajun *(Joint Chairman & Chief Operating Officer) (Appointed on 12 May 2015)*
Mr. Xu Shengheng *(Joint Chairman & Chief Executive Officer)*
Ms. Chan Wai Kay Katherine *(Deputy Chairman)*
Mr. Zang Yiran *(Chief Financial Officer)*
Mr. Zheng Qiyu *(Chairman) (Retired on 12 May 2015)*

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

Independent non-executive directors:
Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Zhang Honghai

Note: In accordance with article 84(3) and 85 of the Company's articles of association, Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine and Mr. Jia Wenzeng will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHY OF DIRECTORS

Biographical details of the directors of the Company are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 13 and 46 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the 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 2015, 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	41,636,000 (L)	1.44%	24,500,000 (L)		
Katherine *(Note 1)*	Interest of spouse	10,074,000 (L)	0.35%	–	76,210,000 (L)	2.64%
Mr. Xu Shengheng	Beneficial owner	508,319,000 (L)	17.58%	22,584,000 (L)	531,605,000 (L)	18.38%
(Note 2)	Beneficial owner	508,300,000 (S)	17.58%	–	508,300,000 (S)	17.58%
	Interest of spouse	702,000 (L)	0.02%	–		
Mr. Jia Wenzeng *(Note 3)*	Beneficial owner	–	–	3,000,000 (L)	3,000,000 (L)	0.10%
Mr. Wu Desheng *(Note 4)*	Beneficial owner	–	–	1,500,000 (L)	1,500,000 (L)	0.05%

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

Report of the Directors

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

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

Notes:

1. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 41,636,000 shares and 24,500,000 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 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 22,584,000 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 3,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

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

(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 2015, 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 2015
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	11 August 2014	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
	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 2015
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	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	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 2015, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in note 44 to the consolidated financial statements in respect of the share option plan, at no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire such rights in any other corporate body.

SHARE OPTION PLAN

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

EQUITY-LINKED AGREEMENTS

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

Report of the Directors

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 December 2015, 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)	29.39%	–	850,000,000 (L)	29.39%
China Energy Conservation and Environmental Protection Group *(Note 1)*	Interest of controlled corporation	850,000,000 (L)	29.39%	–	850,000,000 (L)	29.39%
Ms. Luk Hoi Man *(Note 2)*	Beneficial owner	702,000 (L)	0.02%	–		
	Interest of spouse	508,319,000 (L)	17.58%	22,584,000 (L)	531,605,000 (L)	18.38%
	Interest of spouse	508,300,000 (S)	17.58%	–	508,300,000 (S)	17.58%

(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 22,584,000 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 22,584,000 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 2015, 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 2015 was approximately RMB2,322,000 (equivalent to approximately HK$2,864,000).

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.

Exempted Connected Transaction

On 25 October 2015, Mr. Xu Shengheng together with two individuals (collectively the "Seller"), all of them are members of HRC Leasing Company, LLC ("HRC Co.") and Keyray Investments Limited (the "Buyer"), a wholly owned subsidiary of the Company, entered into the Unit Purchase Agreement by which the Buyer has agreed to purchase and the Seller has agreed to sell, 10,000 units of membership interest of HRC Co., which represented all the issued and outstanding membership units of HRC Co., at a consideration of US$1.00. It was also agreed by both parties that all liabilities, indebtedness and expenses of HRC Co. arising from its operations prior to the closing date of this transaction should be responsible by the Seller and all liabilities, indebtedness and expenses of HRC Co. arising from its operations after the closing date of this transaction should be responsible by the Buyer. In consideration that the Seller, except Mr. Xu Shengheng who is an executive director and substantial shareholder of the Company, are independent third parties and the consideration paid for the purchase of HRC Co. fell within the de minimis transaction, this transaction is a fully exempted connected transaction under Chapter 20 of the GEM Listing Rules.

Details of other significant related party transactions of the Group during the year ended 31 December 2015 are set out in note 46 to the consolidated financial statements.

Report of the Directors

REMUNERATION POLICY

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

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

The Company has adopted a share option plan as an incentive to the Directors and eligible employees. Details of the share option plan are set out in note 44 to the consolidated financial statements of this report.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Zhang Honghai and Mr. Wu Desheng. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2015 and has provided advice and comments thereon. The Audit Committee held five meetings during the year.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 23 to 28.

SECURITIES TRANSACTIONS BY DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

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

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2015 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

Liu Dajun
Joint Chairman & Executive Director

Hong Kong, 30 March 2016

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2015.

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2015 (the "Reporting Period"). This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

As at 31 December 2015, the Board comprised of nine Directors including four executive Directors, namely Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine 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, internal control and risk management of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. The Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meetings. They are also serving on Audit Committee, Remuneration Committee and Nomination Committee.

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

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

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 31 December 2015, 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 2015, 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. Liu Dajun (Appointed on 12 May 2016)	4/7	N/A	N/A	N/A	1/1
Mr. Zheng Qiyu (Retired on 12 May 2016)	3/7	N/A	1/1	1/1	1/1
Mr. Xu Shengheng	7/7	N/A	1/1	N/A	1/1
Ms. Chan Wai Kay Katherine	7/7	N/A	N/A	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	1/1	1/1
Mr. Daiqi	7/7	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Jia Wenzeng	7/7	5/5	1/1	1/1	0/1
Mr. Wu Desheng	7/7	5/5	1/1	1/1	0/1
Mr. Zhang Honghai	7/7	5/5	1/1	1/1	1/1

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

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

Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, and Mr. Wu Desheng, an independent non-executive Director, did not attend the annual general meeting held on 12 May 2015 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 during the period from 1 January 2015 to 12 May 2015. Following the retirement of Mr. Zheng Qiyu on 12 May 2015, Mr. Liu Dajun and Mr. Xu Shengheng were appointed as the joint chairman of the Board and Mr. Xu Shengheng also continuously serves the position as chief executive officer. Although the roles of chairman and chief executive officer were not separate, we considered that, to a certain extent, balance of power and authority can be achieved by the appointment of Mr. Liu Dajun and Mr. Xu Shengheng as Joint Chairman of the Board. We also considered that it has sufficient manpower to satisfy the needs of management of the Board and the day-to-day management of business.

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. Liu Dajun and Mr. Xu Shengheng, both of them are the deputy chairman of remuneration committee. During the Reporting Period, one meeting was held by the remuneration committee. The remuneration committee has reviewed the director's fee paid to the executive Director appointed and the remuneration of other directors of the Board during the year.

NOMINATION COMMITTEE

A nomination committee was formed by the Company on 21 March 2012 with specific written terms of reference which has been adopted by the Company are consistent with the requirements of the Code. The primary duties of the nomination committee are, among others, to review the structure, size and composition (including the skills, knowledge and experience) and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The nomination committee presently consists of two executive Directors, namely Mr. Xu Shengheng (the chairman of nomination committee) and Mr. Liu Dajun (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 held one meeting to consider the appointment of executive Director based on the board diversity policy of the Company, the composition of the Board and the background of the candidate.

Corporate Governance Report

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 2015 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 2015** *HK$'000*
Audit services	2,200
Non-audit services	200
Total fee paid/payable for the Reporting Period	2,400

AUDIT COMMITTEE

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

The audit committee currently consists of 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 AND RISK MANAGEMENT

The Board is responsible for formulating proper internal control and risk management system for the Group, and reviewing its effectiveness regularly through the Audit Committee. The internal audit team of the Group reports and presents directly to the Audit Committee on a regular basis, responsible for constantly supervising the work flow and identifying risk of each department of the Group, to assist the Board and senior management complying with the applicable supervising requirements, so as to improve the efficiency of internal control and risk management systems. During the Reporting Period, the Company has put further effort in enhancing the control and management system and reinforcing the supervision efforts, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests. The Board will regularly review the Group's finance, operation, compliance and risk management corresponding to the changes in its business and to cope with it by discussing and formulating strategies or measures, taking into account the efficiency and adequacy of the internal control and risk management systems of the Group.

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.

Corporate Governance Report

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., Lee Gardens One
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 31 to 131, which comprise the consolidated statement of financial position as at 31 December 2015, 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 about 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance 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
30 March 2016

Consolidated Statement of Profit or Loss

For The year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	7	**319,354**	283,601
Cost of sales		**(199,621)**	(196,314)
Gross profit		**119,733**	87,287
Other income	9	**96,995**	62,001
Selling and distribution expenses		**(28,931)**	(23,669)
Administrative expenses		**(121,798)**	(97,810)
Fair value changes on investment properties	17	**13,235**	9,207
Other operating expenses		**(946)**	–
Impairment loss recognised in respect of trade receivables	29	**(54,383)**	(11,570)
Impairment loss recognised in respect of other receivables	30	**(1,849)**	–
Reversal of impairment loss recognised in respect of trade receivables in prior years	29	**1,260**	15,450
Profit from operations		**23,316**	40,896
Share of results of associates		**(382)**	92
Share of result of a joint venture	23	**798**	–
Gain on deregistration of subsidiaries	42	**–**	820
Loss on deemed disposal of an associate	22	**–**	(5,845)
Share-based payments	44	**(7,747)**	(16,865)
Finance costs	10	**(38,944)**	(38,391)
Loss before tax		**(22,959)**	(19,293)
Income tax expense	11	**(25,147)**	(29,666)
Loss for the year	12	**(48,106)**	(48,959)
(Loss) profit for the year attributable to:			
Owners of the Company		**(47,506)**	(53,506)
Non-controlling interests		**(600)**	4,547
		(48,106)	(48,959)
Loss per share	15		
Basic (HK cents)		**(1.64)**	(1.84)
Diluted (HK cents)		**(1.64)**	(1.84)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	2015	2014
	HK$'000	*HK$'000*
Loss for the year	**(48,106)**	(48,959)
Other comprehensive (expense) income		
Items that will not be reclassified to profit or loss:		
(Loss) gain on revaluation of leasehold land and buildings	**(8,138)**	9,100
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(46,608)**	(29,176)
Fair value gains on available-for-sale investments	**138**	530
Share of other comprehensive expense of associates	**(90)**	(1,943)
Release of exchange translation reserve upon deregistration of subsidiaries	**–**	(331)
	(46,560)	(30,920)
Other comprehensive expense for the year, net of income tax	**(54,698)**	(21,820)
Total comprehensive expense for the year	**(102,804)**	(70,779)
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(100,903)**	(73,920)
Non-controlling interests	**(1,901)**	3,141
	(102,804)	(70,779)

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-Current Assets			
Property, plant and equipment	16	**335,183**	287,654
Investment properties	17	**373,770**	383,961
Deposit paid for acquisition of land use rights	18	**86,621**	56,110
Goodwill	20	**465,760**	465,760
Intangible assets	21	**–**	–
Interests in associates	22	**29,737**	24,362
Interest in a joint venture	23	**7,366**	–
Available-for-sale investments	24	**106,203**	100,974
Prepayments	25	**12,537**	16,844
Deferred tax assets	26	**26,890**	18,110
		1,444,067	1,353,775
Current Assets			
Inventories	27	**39,795**	29,947
Properties held for sale under development	28	**118,688**	104,729
Deposit paid for acquisition of a subsidiary	19	**77,685**	–
Trade and retention receivables	29	**226,336**	168,266
Prepayments, deposits and other receivables	30	**114,953**	141,525
Amounts due from customers for contract work	31	**297,086**	343,659
Amount due from non-controlling interests	36	**1,850**	–
Amounts due from associates	37	**12,612**	15,130
Amounts due from related companies	36	**1,224**	728
Held-for-trading financial assets	32	**59**	3,872
Available-for-sale investments	24	**102,625**	124,930
Cash held at non-bank financial institutions	33	**8,619**	3,051
Short-term bank deposits	33	**–**	19,421
Bank balances and cash	33	**136,199**	309,814
		1,137,731	1,265,072
Current Liabilities			
Trade payables	34	**182,368**	136,200
Accrued liabilities, deposits received and other payables	35	**173,969**	152,322
Amounts due to customers for contract work	31	**11,398**	12,311
Amounts due to associates	37	**–**	12,446
Borrowings	40	**477,326**	–
Tax payable		**139,030**	115,477
		984,091	428,756
Net Current Assets		**153,640**	836,316
Total Assets less Current Liabilities		**1,597,707**	2,190,091

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-Current Liabilities			
Receipt in advance	38	**5,615**	9,446
Deferred income	39	**8,091**	8,525
Borrowings	40	**–**	499,721
Deferred tax liabilities	26	**63,550**	62,868
		77,256	580,560
Net Assets		**1,520,451**	1,609,531
Capital and Reserves			
Share capital	41	**225,184**	226,170
Reserves		**1,250,844**	1,342,429
Equity attributable to owners of the Company		**1,476,028**	1,568,599
Non-controlling interests		**44,423**	40,932
Total Equity		**1,520,451**	1,609,531

The consolidated financial statements on pages 31 to 131 were approved and authorised for issue by the board of directors on 30 March 2016 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 2015

	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	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 income (expense) for the year:														
– Gain on revaluation of leasehold land and buildings	–	–	–	–	9,100	–	–	–	–	–	–	9,100	–	9,100
– Fair value gains on available-for-sale investments	–	–	–	–	–	–	–	530	–	–	–	530	–	530
– Share of other comprehensive expense 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 42)*	–	–	–	–	–	–	–	–	–	(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 42)*	–	–	–	–	–	–	–	–	–	–	–	–	(167)	(167)
Issue of shares upon exercise of share options *(Note 41)*	117	803	–	–	–	–	–	–	(281)	–	–	639	–	639
Repurchase of ordinary shares *(Note 41)*	–	–	–	(3,083)	–	–	–	–	–	–	–	(3,083)	–	(3,083)
Recognition of share-based payment expenses *(Note 44)*	–	–	–	–	–	–	–	–	16,865	–	–	16,865	–	16,865
Lapse of share options *(Note 44)*	–	–	–	–	–	–	–	–	(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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	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*	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 2015	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
Loss for the year	–	–	–	–	–	–	–	–	–	–	(47,506)	(47,506)	(600)	(48,106)
Other comprehensive income (expense) for the year														
– Loss on revaluation of leasehold land and buildings	–	–	–	–	(8,138)	–	–	–	–	–	–	(8,138)	–	(8,138)
– Fair value gains on available-for-sale investments	–	–	–	–	–	–	–	138	–	–	–	138	–	138
– Share of other comprehensive expense of associates	–	–	–	–	–	–	–	–	–	(90)	–	(90)	–	(90)
– Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	–	(45,307)	–	(45,307)	(1,301)	(46,608)
Total other comprehensive income (expense) for the year	–	–	–	–	(8,138)	–	–	138	—	(45,397)	–	(53,397)	(1,301)	(54,698)
Total comprehensive income (expense) for the year	–	–	–	–	(8,138)	–	–	138	–	(45,397)	(47,506)	(100,903)	(1,901)	(102,804)
Contribution by non-controlling interests upon incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	5,392	5,392
Issue of shares upon exercise of share options *(Note 41)*	4,337	26,585	–	–	–	–	–	–	(6,018)	–	–	24,904	–	24,904
Repurchase of ordinary shares *(Note 41)*	(5,323)	(18,786)	–	(210)	–	–	–	–	–	–	–	(24,319)	–	(24,319)
Recognition of share-based payment expenses *(Note 44)*	–	–	–	–	–	–	–	–	7,747	–	–	7,747	–	7,747
Lapse of share options *(Note 44)*	–	–	–	–	–	–	–	–	(19,391)	–	19,391	–	–	–
At 31 December 2015	225,184	885,718	2,935	(3,293)	26,217	154,381	(1,694)	32,903	51,142	(1,430)	103,965	1,476,028	44,423	1,520,451

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 2015

	Notes	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(22,959)**	(19,293)
Adjustments for:			
Impairment loss recognised in respect of trade receivables	29	**54,383**	11,570
Impairment loss recognised in respect of other receivables	30	**1,849**	–
Amortisation of deferred income on government grants	39	**(407)**	–
Change in fair value of held-for-trading financial assets		**946**	(580)
Depreciation of property, plant and equipment	12	**15,215**	9,500
Loss on uncertainty in respect of collectability of amounts due from customers for contract work	12	**11,181**	51,308
Finance costs	10	**38,944**	38,391
Bad debts recovery	9	**(3,670)**	(1,110)
Bank interest income	9	**(505)**	(5,354)
Investment income from terminated investment plan in a joint venture	9	**–**	(3,210)
Loss on deemed disposal of an associate	22	**–**	5,845
Gain on deregistration of subsidiaries	42	**–**	(820)
Reversal of impairment loss recognised in respect of trade receivables in prior years	29	**(1,260)**	(15,450)
Share-based payments	44	**7,747**	16,865
Share of results of associates		**382**	(92)
Share of result of a joint venture	23	**(798)**	–
Waiver of payables	9	**–**	(3,435)
Fair value changes on investment properties	17	**(13,235)**	(9,207)
Operating cash flows before movements in working capital		**87,813**	74,928
Increase in inventories		**(8,506)**	(12,973)
Increase in trade and retention receivables		**(115,064)**	(18,784)
Decrease (increase) in prepayments, deposits and other receivables		**22,086**	(78,984)
Decrease (increase) in amounts due from customers for contract work		**18,956**	(15,041)
Increase in amounts due from related companies		**(529)**	(1,274)
Increase in trade payables		**52,272**	17,342
Increase (decrease) in accrued liabilities, deposits received and other payables		**28,332**	(24,726)
Decrease in receipt in advance		**(3,408)**	(1,901)
Decrease (increase) in held-for-trading investments		**2,867**	(3,252)
Decrease in amounts due to customers for contract work		**(361)**	(6,179)
Cash from (used in) operations		**84,458**	(70,844)
PRC Enterprise Income Tax ("PRC EIT") paid		**(1,876)**	(1,267)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**82,582**	(72,111)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
INVESTING ACTIVITIES			
Deposit refund for setting up of a joint venture		–	37,888
Purchase of property, plant and equipment		(2,303)	(5,371)
Net cash outflow on acquisition of a subsidiary	42	–	(303)
Deposit paid for acquisition a subsidiary		(77,685)	–
Proceeds on disposal of property, plant and equipment		–	563
Acquisition on available-for-sale investments		(9,558)	(224,874)
Refund from available-for-sale investments	24	16,706	–
Deposits refunded for acquisition of land use rights	18	1,535	241,577
Deposits paid for acquisition of land use rights	18	(62,426)	(56,110)
Repayment from (advanced to) an associate		1,840	(9,469)
Advanced to non controlling interests		(1,850)	–
Development costs paid for investment properties under construction or development	17	(49,399)	(58,287)
Development costs paid for properties held for sale under development	28	(19,271)	(1,339)
Interest received		505	5,354
Incorporation of an associate		(5,847)	–
Incorporation of a joint venture	23	(6,568)	–
NET CASH USED IN INVESTING ACTIVITIES		(214,321)	(70,371)
FINANCING ACTIVITIES			
Government grants received	39	353	973
Proceeds from exercise of share options		24,904	639
Interests paid		(38,944)	(38,391)
Dividends paid		–	(14,514)
Repurchase of ordinary shares		(24,319)	(3,083)
Contribution by non-controlling interests upon incorporation of a subsidiary		5,392	–
Repayment to an associate		(11,888)	–
NET CASH USED IN FINANCING ACTIVITIES		(44,502)	(54,376)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(176,241)	(196,858)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		332,286	543,192
Effect of foreign exchange rate changes		(11,227)	(14,048)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by		144,818	332,286
Cash held at non-bank financial institution		8,619	3,051
Short-term bank deposits		–	19,421
Bank balances and cash		136,199	309,814
		144,818	332,286

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL AND BASIS OF PREPARATION

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

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries, associates and a joint venture are set out in Notes 49, 22 and 23 respectively.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS	Annual improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRS	Annual improvements to HKFRSs 2011-2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

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

Annual improvements to HKFRSs 2010-2012 Cycle

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

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

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.

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 considered that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle has had no material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

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

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

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

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

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

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

The amendments are applied prospectively. The directors of the Company considered that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle has had no material impact in the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the 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[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[1]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]

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

2 Effective for annual periods beginning on or after 1 January 2018.

3 Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces 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 an "expected credit loss" model for impairment assessments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

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

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

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. 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 values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), 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 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is 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 (2014) introduces a new model which 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 (2014) 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.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption 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.

Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

New and revised HKFRSs issued but not yet effective *(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 2018 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 Improvement 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.

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

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

Annual Improvement to HKFRSs 2012-2014 Cycle *(Continued)*

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 of the Company 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 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

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

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

ii. when a high correlation between revenue and the consumption of the economic benefits of the intangible assets could be demonstrated.

The amendment to HKAS 16 and HKAS 38 will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments should be applied prospectively.

As the Group uses straight-line method for depreciation of property, plant and equipment, the directors of the Company do not anticipate that the application of the amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments provide guidance on addressing the acknowledged inconsistency between the requirements in HKFRS 10 and those in HKAS 28, in dealing with the sale or contribution of assets between an investor and its joint venture and associate. An investing entity is required to recognise the gain or loss arising from selling or contributing assets that constitutes or contains a business to a joint venture or associate in full. An investing entity is required to recognise the gain or loss arising from selling or contributing assets that does not constitute or contain a business to a joint venture or associate only to the extent of the unrelated investors' interests in that joint venture or associate.

The effective date of amendments to HKFRS 10 and HKAS 28 has not yet been determined. However, earlier application is permitted. The amendments should be applied prospectively.

The directors of the Company do not anticipate that the application of Amendments to HKFRS 10 and HKAS 28 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") AND NEW HONG KONG COMPANIES ORDINANCE *(Continued)*

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

Amendments to HKAS 1 Disclosure Initiative

The amendments clarify that companies should use professional judgement in determining what information as well as where and in what order information is presented in the financial statements. Specifically, an entity should decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity does not require providing a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements.

Besides, the amendments provide some additional requirements for presenting additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position and financial performance respectively. Entities, in which they have investments in associates or joint ventures, are required to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

Furthermore, the amendments clarify that:

(i) an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes; and

(ii) significant accounting policies are not required to be disclosed in one note, but instead can be included with related information in other notes.

The amendments will become effective for financial statements with annual periods beginning on or after 1 January 2016. Earlier application is permitted.

The directors of the Company anticipate that the application of the Amendments to HKAS 1 in the future may have a material impact on the disclosures made in 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.

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 (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 significant of the inputs to the fair value measurement in its entirely, which are described as follows:

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities 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 reassesses 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 and other comprehensive income 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 any 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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.

Goodwill

Goodwill arising from a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than 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 cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of 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 below.

Investments in associates and a joint venture

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 of those policies.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

The Group's investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates and joint ventures are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates and joint ventures 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 or a joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture, 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 or joint venture.

If an associate or a joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's or joint venture's accounting policies conform to those of the Group when the associate's or joint venture's financial statements are used by the Group in applying the equity method.

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

After application of the equity method, including recognising the associate's or joint venture'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 or joint venture. Goodwill that forms part of the carrying amount of an investment in an associate or a joint venture 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 or joint venture. 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 or a joint venture upon the Group losing significant influence over the associate or joint control over the joint venture, 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 or joint venture 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.

When the Group's ownership interest in an associate or a joint venture 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

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

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 the discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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.

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 lease term.

The Group as lessee

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

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing 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, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) 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. 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in the production or supply of goods and services, or for administrative purposes (other than properties under construction 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.

Revaluations are made annually at each end of reporting period. Any increase in carrying amount of an asset as a result of a revaluation is recognised in other comprehensive income and accumulated in equity under the heading of assets revaluation reserve while any decrease resulted is recognised in profit or loss. However, an increase is recognised in profit or loss when that it reverses a revaluation decrease of the same asset previously recognised in profit or loss while a decrease is recognised in other comprehensive income when it reduces the related amount accumulated in assets revaluation reserve.

The asset revaluation reserve in respect of an item of property, plant and equipment stated at revaluated amount is transferred directly to retained earnings when it is realised on retirement or disposal and as the asset is used by the Group in which the amount transferred is calculated at the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include 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 when there is a change in use, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

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

When 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 investment 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 investment property is derecognised.

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Financial instruments

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

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

Financial assets

The Group's financial assets are classified into 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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. Fair value is determined in the manner described in Note 6.

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, deposit paid for acquisition of a subsidiary, amounts due from associates, amounts due from related companies, amount due from non-controlling interests, 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 (see the accounting policy on impairment loss on financial assets below).

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 capital reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the capital reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets (Continued)

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on 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 an 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 and 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, 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 impairment loss recognised is the difference between the assets's carrying amount and the present value of the estimated future cash flow discounted of the financial asset's original effective interest rate.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and retention receivables, deposits and other receivables and amounts due from associates, amounts due from related companies and amount due from non-controlling interests where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When 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 to 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in asset revaluation reserve. For available-for-sale 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

Debts and equity instruments issued by the Group 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.

The Group's financial liabilities are classified as other financial liabilities.

Other financial liabilities

Other financial liabilities including trade payables, accrued liabilities and other payables, 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.

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 Company are recognised at the proceeds received, net of direct issue costs.

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

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period and/or recognized as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in 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 estimate, with a corresponding adjustment to share-based payment reserve.

When 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.

Impairment losses on tangible and intangible assets (other than impairment of goodwill set out in accounting policy 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 standard, in which case the impairment is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the 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 the CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation increase under that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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 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 and disclosures made 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.

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 of the Company 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.

De facto control over a subsidiary

Notwithstanding the lack of equity ownership in 北京市廣廈建築事務所 ("Guangsha"), the Group is able to exercise contol over Guangsha through the contractual arrangements.

The director 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 contractual arrangements. After assessment,the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of Guangsha and therefore the Group has control over Guangsha.

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

Control in a subsidiary

As detailed in Note 49 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 48.25% of the effective interest in it. The directors of the Company assessed the Group's control over it on the basis of its practical ability to direct the relevant activities unilaterally in making their judgement, the director of the Company considered the Group has sufficiently dominant voting interest to direct the relevant activities of it and therefore the Group has control over it.

Ownerships of the land and buildings and investment properties

Despite the Group had paid the full purchase consideration as detailed Notes 16 and 17, formal titles of certain of the Group's rights to the use of the lands and buildings and investment properties were not yet granted from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal title, the directors of the Company determined to recognise these lands and buildings and investment properties on the ground that they expect the legal titles being obtained in the future should have no major difficulties and the Group is in substance controlling these lands and buildings and investment properties. In the opinion of the directors of the Company, the absence of formal title to these lands and buildings and investment properties does not impair the value of the relevant assets to the Group.

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 resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Net realisable value for properties held for sale under development

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

Net realisable value for properties held for sale under development is determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. During the course of the assessment, the management also made reference to property valuations conducted by an independent qualified professional valuer 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 2015, the carrying amounts of properties held for sale under development are approximately HK$118,688,000 (2014: HK$104,729,000). No impairment losses of properties of held for sale under development were recognised as at 31 December 2015 (2014: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

Key sources of estimation uncertainty *(Continued)*

Income taxes

The Group is mainly subject to income taxes in the PRC. 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 recognised in respect of allowance for doubtful debts are approximately HK$26,890,000 as at 31 December 2015 (2014: HK$18,110,000). The reliability 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 an independent professional valuer. In determining the fair values, the valuer has 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 profit or loss.

As at 31 December 2015, the carrying amounts of the investment properties are approximately HK$373,770,000 (2014: HK$383,961,000). 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 directors of the Company have determined the appropriate valuation techniques and inputs for fair value measurements.

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

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

Construction contracts

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

During the year ended 31 December 2015, construction contracts income and loss on uncertainty arises about the collectability amounting to approximately HK$290,660,000 and HK$11,181,000 respectively (2014: HK$259,512,000 and HK$51,308,000 respectively) were recognised in the consolidated statement of profit or loss.

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

Key sources of estimation uncertainty *(Continued)*

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 values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives 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 2015, the carrying amount of property, plant and equipment is approximately HK$335,183,000 (net of accumulated depreciation and impairment losses of approximately HK$39,307,000) (2014: carrying amount of approximately HK$287,654,000 (net of accumulated depreciation and impairment losses of approximately HK$26,061,000).

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 2015, the carrying amount of goodwill is approximately HK$465,760,000 (2014: HK$465,760,000). No impairment losses were recognised as at 31 December 2015 (2014: Nil).

Estimated allowance for inventories and write-down of inventories

The management of the Group reviews an aging analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. 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 2015, the carrying amounts of inventories were approximately HK$39,795,000 (2014: HK$29,947,000). No impairment losses were recognised as at 31 December 2015 (2014: 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 these debtors' current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from these receivables and maintains a provision for estimated credit losses based upon its historical experience. As at 31 December 2015, the carrying amounts of trade and retention receivables were of approximately HK$226,336,000, net of allowance for doubtful debts of approximately HK$58,651,000 (2014: HK$168,266,000, net of allowance for doubtful debts of approximately HK$6,301,000), and deposits and other receivables are approximately HK$56,332,000, net of allowance for doubtful debts of approximately HK$4,955,000 (2014: HK$67,630,000, net of allowance for doubtful debts of approximately HK$3,299,000) respectively.

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

Key sources of estimation uncertainty *(Continued)*

Estimated impairment of interests in associates and interest in a joint venture

The impairment review of interests in associates and interest in a joint venture required management's judgment 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 2015, the carrying value of interests in associates and interest in a joint venture is approximately HK$29,737,000 and HK$7,366,000 respectively (2014: HK$24,362,000 and nil). No accumulated impairment losses were recognised as at 31 December 2015 (2014: Nil)

Estimated impairment of available-for-sale investments

The management of the Group follows the guidance of HKAS 39 to review AFS investments carried at cost (Note 24) 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 2015, the carrying amounts of AFS investments stated at cost are approximately HK$148,519,000 (2014: HK$162,909,000). No accumulated impairment losses were recognised as at 31 December 2015 (2014: Nil)

For fund which is stated at fair value, a significant or prolonged decline in fair value of the fund below its cost is considered to be objective evidence of impairment. As at 31 December 2015, the carrying amounts of the fund are approximately HK$60,309,000 (2014: HK$62,995,000). No accumulated impairment losses were recognized as at 31 December 2015 (2014: 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 year.

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

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, 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 gearing ratio at the end of the reporting period is as follows:

	2015	2014
	HK$'000	*HK$'000*
Total borrowings	**477,326**	499,721
Equity *(Note)*	**1,476,028**	1,568,599
Gearing ratio	**32%**	32%

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

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6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015	2014
	HK$'000	*HK$'000*
Financial assets		
FVPTL-held for trading	**59**	3,872
Loans and receivables (including cash and cash equivalents)	**520,857**	584,041
AFS investments	**208,828**	225,904
Financial liabilities		
Other financial liabilities at amortised cost	**791,623**	767,370

(b) Financial risk management objectives and policies

The Group's major financial instruments include AFS investments, held-for-trading financial assets, trade and retention receivables, deposits and other receivables, amounts due from associates, amounts due from related companies, amount due from non-controlling interests, 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 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, other price risk and interest rate 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk (Continued)

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	
	2015	2014	**2015**	2014
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables	**2,282**	1,730	–	–
Bank balances and cash	**61,914**	212,936	–	–
Accrued liabilities and other payables	–	–	**4,845**	4,563
Total exposure	**64,196**	214,666	**4,845**	4,563

Sensitivity analysis

The Group is mainly exposed to HK$.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2014: 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% (2014: 5%) change in foreign currency rates. A positive number below indicates an increase/decrease in loss (2014: an increase/decrease in loss) after tax for the year where RMB strengthen 5% (2014: 5%) against the relevant currency.

For a 5% (2014: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss after tax and the balances below would be negative.

	2015	2014
	HK$'000	*HK$'000*
HK$	**(2,226)**	(7,879)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits (see Note 33). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 33) and borrowings (see Note 40). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(ii) Interest rate risk (Continued)

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$1,216,000 (2014: post-tax loss would increase/decrease by approximately HK$379,000). 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 and fund. 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to price risks at the end of the reporting period.

If the prices of the respective equity securities have been 5% (2014: 5%) higher/lower:

Capital reserve would increase/decrease by approximately HK$3,015,000 (2014: HK$3,150,000) for the Group as a result of the changes in fair value of the fund.

Credit risk

As at 31 December 2015, 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 recoverability 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

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.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2014: 100%) of the total trade and retention receivables as at 31 December 2015.

The Group has a concentration of credit risk as 8% and 24% (2014: 24% and 42%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 December 2015 within the shallow ground source energy business segment.

With respect to credit risk arising from amounts due from associates, related companies and non-controlling interests, 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 significant losses for uncollected amounts due from associates, related companies and non-controlling interests.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 2015					
Non-derivative financial liabilities					
Trade payables	**182,368**	–	–	**182,368**	**182,368**
Accrued liabilities and other payables	**131,929**	–	–	**131,929**	**131,929**
Borrowings	**503,879**	–	–	**503,879**	**477,326**
	818,176	–	–	**818,176**	**791,623**

	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
Amounts 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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

Financial asset	Fair value as at **2015**	Fair value as at 2014	Fair value hierarchy	Valuation technique(s) and key input(s)
Fund classified as AFS investments *(Note 24)*	**Fund investments in natural resources: HK$60,309,000**	Fund investments in natural resources: HK$62,995,000	Level 1	Quoted bid prices in an active market, such as the Shenzhen Stock Exchange Limited
Held-for-trading non-derivative financial assets classified as held-for-trading financial assets *(Note 32)*	**Listed securities in the Stock Exchange: – Infrastructure HK$59,000**	Listed securities in the Stock Exchange: – Manufacture, infrastructure construction and properties development: HK$3,872,000	Level 1	Quoted bid prices in an active market, such as the Main board of The Stock Exchange of Hong Kong Limited

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:

	2015	2014
	HK$'000	*HK$'000*
Sales and installation of shallow ground source energy utilisation system	**290,660**	259,512
Maintenance services for shallow ground source energy utilisation system	**8,160**	8,959
Rental income *(Note (i))*	**20,534**	15,130
	319,354	283,601

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

	2015	2014
	HK$'000	*HK$'000*
Gross rental income	**20,534**	15,130
Less: direct operating expenses from investment properties that generated rental income during the year	**(1,080)**	(2,141)
Net rental income	**19,454**	12,989

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8. SEGMENT INFORMATION

The Group's reportable and operating segments, based on information reported to the chief operating decision maker ("CODM"), being the chief executive of the Company, for the purpose of resource allocation and performance assessment focuses on type of goods or services delivered or provided 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 securities and other types of investment; and

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

No operating segment identified by the CODM 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 2015

	Shallow ground source energy	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	**298,820**	**–**	**20,534**	**319,354**
Segment results	**42,702**	**14,551**	**32,689**	**89,942**
Share of results of associates				**(382)**
Share of result of a joint venture				**798**
Unallocated other income				**4,966**
Unallocated expenses				**(79,339)**
Unallocated finance costs				**(38,944)**
Loss before tax				**(22,959)**

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

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)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment result represents profit earned by or loss from each segment without allocation of share of results of associates and a joint venture, 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 CODM for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2014: Nil).

Segment assets and liabilities

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

Segment assets

	2015 ***HK$'000***	2014 *HK$'000*
Shallow ground source energy	**1,377,736**	1,414,779
Securities investment and trading	**288,908**	231,699
Properties investment and development	**690,657**	578,663
Total segment assets	**2,357,301**	2,225,141
Unallocated corporate assets	**224,497**	393,706
Consolidated total assets	**2,581,798**	2,618,847

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For the year ended 31 December 2015

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Segment liabilities

	2015	2014
	HK$'000	*HK$'000*
Shallow ground source energy	**331,427**	268,491
Securities investment and trading	**3,429**	3,152
Properties investment and development	**46,585**	47,161
Total segment liabilities	**381,441**	318,804
Unallocated corporate liabilities	**679,906**	690,512
Consolidated total liabilities	**1,061,347**	1,009,316

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

- all assets are allocated to operating segments other than certain other receivables, interests in associates, interest in a joint venture, deferred tax assets, amounts due from associates, amounts due from related companies, amount due from non-controlling interests, cash held at non-bank financial institutions, short-term bank deposits, bank balances and cash; and

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

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2015

	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 results or segment assets:				
Additions to non current assets *(Note)*	126,543	–	–	126,543
Development costs paid for investment properties under construction	–	–	49,399	49,399
Impairment loss recognised in respect of trade receivables	54,383	–	–	54,383
Impairment loss recognised in respect of other receivables	1,849	–	–	1,849
Fair value changes on held-for-trading financial assets	–	946	–	946
Reversal of impairment loss recognised in respect of trade receivables in prior years	(1,260)	–	–	(1,260)
Depreciation	14,911	–	304	15,215
Fair value changes on investment properties	–	–	(13,235)	(13,235)
Share-based payments	7,747	–	–	7,747
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:				
Interests in associates	29,737	–	–	29,737
Interest in a joint venture	7,366	–	–	7,366
Share of result of a joint venture	(798)	–	–	(798)
Share of results of associates	382	–	–	382
Interest income	(505)	–	–	(505)
Interest expenses	38,944	–	–	38,944
Income tax expense	21,082	–	4,065	25,147

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8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

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 results or segment assets:				
Additions to non current assets *(Note)*	119,768	–	–	119,768
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)
Share-based payments	16,865	–	–	16,865
Amounts regularly provided to the CODM but not included in the measure of segment results 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

Note: Non-current assets excluded available-for-sale investments and deferred tax assets.

Geographical information

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

Information about major customers

During the years ended 31 December 2014 and 2015, no single external customer contributed over 10% of the Group's revenue.

9. OTHER INCOME

	2015	2014
	HK$'000	*HK$'000*
Bad debts recovery	**3,670**	1,110
Bank interest income	**505**	5,354
Change in fair value of held-for-trading financial assets	**–**	580
Compensation received	**582**	366
Consultancy fee income	**–**	1,205
Dividend income from held-for-trading financial assets	**86**	–
Exchange gains	**3,994**	–
Government grants *(Note a)*	**71,836**	45,461
Investment income on available-for-sale investment	**15,411**	–
Investment income from terminated investment plan in a joint venture *(Note b)*	**–**	3,210
Sale of scrap materials	**444**	943
Waiver of payables	**–**	3,435
Others	**467**	337
	96,995	62,001

Notes:

(a) Included in the amount of government grants recognised during the year ended 31 December 2015, approximately HK$71,429,000 (2014: HK$45,461,000) were received in respect of certain research projects of the Group, and the Group fulfilled the relevant granting criteria and recognised the amount as other income immediately during the year. Government grants previously received of approximately HK$407,000 (2014: Nil) (see Note 39) were recognised as deferred income utilised during the year.

(b) 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 the PRC ("JV Company"). The Group paid a deposit amounted to RMB30,000,000 (equivalent to approximately HK$38,424,000) for the formation of JV Company. 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 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) have been fully repaid by Rong Chuang.

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10. FINANCE COSTS

	2015	2014
	HK$'000	*HK$'000*
Interest on borrowings	**38,944**	38,391

11. INCOME TAX EXPENSE

	2015	2014
	HK$'000	*HK$'000*
Current tax:		
PRC EIT	**30,604**	24,530
Over-provision in prior years:		
PRC EIT	**–**	(3,703)
Deferred tax *(Note 26)*	**(5,457)**	8,839
	25,147	29,666

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 during the years ended 31 December 2014 and 2015.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2014 and 2015.

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 enterprises in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2015 (2014: 15%).

11. INCOME TAX EXPENSE *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Loss before tax	**(22,959)**	(19,293)
Tax at the domestic income tax rate	**(2,465)**	(1,060)
Over-provision in prior years	–	(3,703)
Tax effect of share of results of associates	**96**	(23)
Tax effect of share of result of a joint venture	**(200)**	–
Tax effect of expenses not deductible for tax purposes	**13,587**	35,357
Tax effect of tax losses not recognised	**10,520**	–
Tax effect of income not taxable for tax purposes	**(599)**	(648)
Income tax on concessionary rate	**4,208**	(257)
Tax expense for the year	**25,147**	29,666

12. LOSS FOR THE YEAR

	2015 HK$'000	2014 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(Note 13)*		
– Wages and salaries	**57,355**	51,664
– Retirement benefits scheme contributions *(Note 45)*	**10,808**	9,176
– Share-based payments *(Note 44)*	**7,747**	16,865
	75,910	77,705
Cost of inventories sold	**188,440**	145,006
Depreciation of property, plant and equipment	**15,215**	9,500
Auditor's remuneration	**2,410**	2,106
Minimum lease payments under operating leases in respect of land and buildings	**8,949**	10,919
Fair value change on held-for-trading financial assets	**946**	(580)
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	**11,181**	51,308
Research costs (included in administrative expenses)*	**7,549**	4,928

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

(a) The emoluments paid or payable to each of the 10 (2014: 10) directors were as follows:

For the year ended 31 December 2015

	Ms. Chan Wai Kay, Katherine *HK$'000*	Mr. Liu Dajun *(Note 1)* *HK$'000*	Mr. Zheng Qiyu *(Note 2)* *HK$'000*	Mr. Zang Yiran *HK$'000*	Mr. Xu Shengheng* *HK$'000*	Total *HK$'000*
A) EXECUTIVE DIRECTORS:						
Fees	–	–	–	–	–	–
Other emoluments:						
Salaries, allowances and benefits in kind	1,920	1,284	–	1,200	1,981	6,385
Retirement benefits	18	–	–	–	18	36
Share-based payments	412	–	–	–	302	714
Sub-total emoluments	2,350	1,284	–	1,200	2,301	7,135

	Mr. Zhao Youmin *HK$'000*	Mr. Daiqi *HK$'000*	Total *HK$'000*
B) NON-EXECUTIVE DIRECTORS:			
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	–	781	781
Retirement benefits	–	–	–
Sub-total emoluments	–	781	781

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

(a) The emoluments paid or payable to each of the 10 (2014: 10) directors were as follows: *(Continued)*

For the year ended 31 December 2015 *(Continued)*

	Mr. Jia Wenzeng *HK$'000*	**Mr. Zhang Honghai** *(Note 4)* *HK$'000*	**Mr. Wu Desheng** *HK$'000*	**Total** *HK$'000*
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:				
Fees	150	150	150	450
Other emoluments:				
Salaries, allowances and benefits in kind	–	–	–	–
Retirement benefits	–	–	–	–
Share-based payments	41	–	41	82
Sub-total emoluments	191	150	191	532
Total emoluments				8,448

For the year ended 31 December 2014

	Ms. Chan Wai Kay, Katherine *HK$'000*	Mr. Zheng Qiyu *(Note 2)* *HK$'000*	Mr. Zang Yiran *HK$'000*	Mr. Xu Shengheng* *HK$'000*	Total *HK$'000*
A) EXECUTIVE DIRECTORS:					
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,920	–	1,200	1,920	5,040
Performance related incentive payments-bonus *(Note 7)*	–	–	–	1,666	1,666
Retirement benefits	17	–	–	17	34
Share-based payments	824	–	–	603	1,427
Sub-total emoluments	2,761	–	1,200	4,206	8,167

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

(a) The emoluments paid or payable to each of the 10 (2014: 10) directors were as follows: *(Continued)*

For the year ended 31 December 2014 *(Continued)*

	Mr. Zhao Youmin *HK$'000*	Mr. Daiqi *HK$'000*	Total *HK$'000*
B) NON-EXECUTIVE DIRECTORS:			
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	–	780	780
Retirement benefits	–	–	–
Sub-total emoluments	–	780	780

	Mr. Jia Wenzeng *HK$'000*	Mr. Zhang Honghai *(Note 4)* *HK$'000*	Mr. Wu Desheng *HK$'000*	Mr. Hu Zhaoguang *(Note 3)* *HK$'000*	Total *HK$'000*
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:					
Fees	150	50	150	–	350
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	–
Retirement benefits	–	–	–	–	–
Share-based payments	82	–	82	–	164
Sub-total emoluments	232	50	232	–	514
Total emoluments					9,461

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

(a) The emoluments paid or payable to each of the 10 (2014: 10) directors were as follows: *(Continued)*

Notes:

(1) Appointed on 12 May 2015

(2) Resigned on 12 May 2015

(3) Resigned on 2 September 2014

(4) Appointed on 2 September 2014

(5) There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years ended 31 December 2014 and 2015.

(6) No emoluments were paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2014 and 2015.

(7) The discretionary bonus was determined with reference to the individual performance during the year ended 31 December 2014.

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

(b) Of the five individuals with the highest emoluments in the Group, four (2014: four) 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 (2014: one) individuals were as follows:

	2015	2014
	HK$'000	*HK$'000*
Salaries and other benefits	**1,314**	894
Retirement benefits scheme contributions	**14**	9
	1,328	903

The emolument of the above was ranged from HK$1,000,001 to HK$1,500,000 during the year ended 31 December 2015 (2014: ranged from nil to HK$1,000,000).

During the years ended 31 December 2014 and 2015, 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

During the year ended 31 December 2015, no final dividend in respect of the year ended 31 December 2014 was declared and paid to the shareholders of the Company.

During the year ended 31 December 2014, final dividend of HK$14,514,000 of HK0.5 cents per ordinary share in respect of the year ended 31 December 2013 was declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2015 has been proposed by the directors of the Company.

Notes to the Consolidated Financial Statements

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15. LOSS PER SHARE

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

	2015	2014
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**(47,506)**	(53,506)

	2015	2014
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,898,614**	2,903,468

0

Note: The computation of diluted earnings per share does not assume the exercise of the Company's share options because their exercise would result in a decrease in loss per share for the year ended 31 December 2015.

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 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 42)*	–	–	56,204	–	–	–	–	56,204
Disposals	–	–	–	–	–	(954)	–	(954)
Written off	–	–	–	(26)	(13)	–	–	(39)
Deregistration of subsidiaries	–	–	–	(4)	–	–	–	(4)
Revaluation	8,782	–	–	–	–	–	–	8,782
At 31 December 2014 and 1 January 2015	200,601	4,192	73,545	3,055	5,852	10,016	16,454	313,715
Exchange realignment	(11,422)	(141)	(3,686)	(131)	(255)	(314)	(737)	(16,686)
Additions	–	–	1,809	157	337	–	–	2,303
Revaluation	(8,450)	–	–	–	–	–	–	(8,450)
Transfer from investment properties *(Note 17)*	84,175	–	–	–	–	–	–	84,175
Transfer	–	–	12,620	–	–	–	(12,620)	–
Transfer to cost of services	–	–	–	–	–	–	(444)	(444)
Written off	–	–	–	(18)	(16)	(89)	–	(123)
At 31 December 2015	264,904	4,051	84,288	3,063	5,918	9,613	2,653	374,490

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

	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*
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
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 subsidiaries	–	–	–	(1)	–	–	–	(1)
At 31 December 2014 and 1 January 2015	–	1,590	10,304	2,687	4,718	6,762	–	26,061
Exchange realignment	–	(41)	(1,150)	(115)	(129)	(99)	–	(1,534)
Provided for the year	312	507	12,464	221	621	1,090	–	15,215
Eliminated on revaluation	(312)	–	–	–	–	–	–	(312)
Written off	–	–	–	(18)	(16)	(89)	–	(123)
At 31 December 2015	–	2,056	21,618	2,775	5,194	7,664	–	39,307
CARRYING VALUES								
At 31 December 2015	264,904	1,995	62,670	288	724	1,949	2,653	335,183
At 31 December 2014	200,601	2,602	63,241	368	1,134	3,254	16,454	287,654

The Group's leasehold land and buildings are located in the PRC.

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

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

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$262,904,000 (2014: HK$185,993,000).

As at 31 December 2015, the Group is in the process of obtaining the ownership certificates for certain buildings at a carrying amount of approximately HK$173,926,000 (2014: HK$191,606,000). In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair their values to the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

Fair value measurement of the Group's land and buildings

The Group's leasehold land and buildings were valued on 31 December 2015 and 31 December 2014 by Peak Vision Appraisals Limited ("Peak Vision"), an independent valuer not connected to the Group.

The fair value of the leasehold land and buildings in Dalian of approximately HK$90,978,000 (2014: HK$8,995,000) 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 values of office buildings in Beijing were 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 existing tenancies, rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield was 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 office buildings.

There has been no change to 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.

Valuation process

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

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent qualified valuer to perform the valuation. The directors of the Company work closely with independent qualified valuer to establish the appropriate valuation techniques and inputs to the model. The directors of the Company will review the cause of fluctuations in fair value of the assets semi-annually.

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

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

	Level 1	**Level 2**	**Level 3**	**Fair value as at 31 December 2015**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Office buildings in Dalian, the PRC:				
– buildings	–	**90,978**	–	**90,978**
Office buildings in Beijing, the PRC:				
– buildings	–	–	**173,926**	**173,926**

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

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.

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

Carrying values of leasehold land and buildings held by the Group	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
At 31 December 2015				
Office buildings in Beijing, the PRC HK$173,926,000	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 RMB4.55 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.
Office buildings in Dalian, the PRC HK$90,978,000	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 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 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 5.25%.	The increase in the market yield would result in a decrease in fair value.
Office 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

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 2014	187,817
Exchange realignment	(4,619)
Revaluation	8,408
At 31 December 2014 and 1 January 2015	191,606
Exchange realignment	(8,285)
Revaluation	(9,395)
At 31 December 2015	173,926

17. INVESTMENT PROPERTIES

	Investment properties under construction or development at fair value *HK$'000*	Investment properties at fair value *HK$'000*	Total *HK$'000*
At 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 and 1 January 2015	253,983	129,978	383,961
Exchange realignment	(11,714)	(5,725)	(17,439)
Development costs paid	49,399	–	49,399
Transfer from deposits paid for acquisition of land use right *(Note 18)*	28,789	–	28,789
Transfer to property, plant and equipment *(Note 16)*	(84,175)	–	(84,175)
Fair value gains (losses) recognised in the consolidated statement of profit or loss	16,317	(3,082)	13,235
At 31 December 2015	252,599	121,171	373,770

The above investment properties are situated in the PRC.

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.

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17. INVESTMENT PROPERTIES *(Continued)*

As at 31 December 2015, the Group is in the process of obtaining the ownership certificates for certain investment properties at a carrying amount of approximately RMB101,540,000 (equivalent to HK$121,170,000) (2014: RMB104,040,000 (equivalent to HK$129,978,000)). In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid the full purchase consideration of these properties and the probability of being evicted on the ground of an absence of formal title is remote.

The fair values of investment properties as at 31 December 2015 and 2014 have been arrived at on the basis of valuations carried out on the respective dates by Peak Vision, an independent qualified professional valuer not connected 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 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 existing tenancies, rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield was 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.

In valuing properties in Pizhou, the PRC, due to the nature of buildings and structures constructed, there are no readily identifiable market comparables and accordingly the property interests cannot be valued by comparison with open market transactions. Therefore, depreciated replacement cost ("DRC") approach was adopted in arriving at the value of such property interests. The DRC approach is based on an estimate of the market value for the existing use of the land and the costs to reproduce or replace in new condition of the buildings and structures being valued in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Residential properties in Dalian, the PRC under construction or development and one of commercial properties in Dalian, the PRC, under construction or development, are measured at fair value, based on the valuation adopting 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. The fair value of another 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.

In valuing industrial and ancillary properties in Xinyi, the PRC, each of the properties are under construction and will be developed and completed in accordance with the latest development proposals provided by the Company. Direct comparison method was adopted by making reference to comparable sales evidence as available in the relevant markets.

There has been no change to the valuation technique 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.

17. INVESTMENT PROPERTIES *(Continued)*

Detail of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follow:

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Fair value as at 31 December 2015 *HK$'000*
Industrial and ancillary property units located in Beijing, the PRC	–	–	**105,775**	**105,775**
Industrial and ancillary property units located in Xinyi, the PRC	–	**6,754**	–	**6,754**
Industrial and ancillary property units located in Pizhou, the PRC	–	**42,625**	–	**42,625**
Commercial property units located in Dalian, the PRC	–	**15,396**	**29,116**	**44,512**
Residential property units located in Dalian, the PRC	–	–	**174,104**	**174,104**

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Fair value as at 31 December 2014 *HK$'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

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

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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	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
At 31 December 2015				
Industrial and ancillary properties in Beijing, the PRC HK$105,775,000	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 RMB3.08 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 an decrease in fair value.
Industrial and ancillary properties in Xinyi, the PRC HK$6,754,000	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
Industrial and ancillary properties in Pizhou, the PRC HK$42,625,000	Level 2	Depreciated replacement cost approach based on an estimate of the market value for the existing use of the land.	N/A	N/A
Residential properties in Dalian, the PRC HK$174,104,000	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 RMB4,000 sq. m. to RMB6,000 sq. m. Estimated cost to completion is RMB2,200 per sq. m.	The increase in the market unit sales rate would result in an increase in fair value.

17. INVESTMENT PROPERTIES *(Continued)*

Carrying values of investment properties held by the Group	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
At 31 December 2015 (*Continued*)				
Commercial properties in Dalian, the PRC HK$29,116,000	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 RMB3,700 sq. m. to RMB4,500 sq. m. Estimated cost to completion from RMB1,120 per sq. m. to RMB2,230 per 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$15,396,000	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 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. 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 unit rent would result in an increase in fair value. 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. Estimated cost to completion is RMB2,200 per sq. m.	The increase in the market unit sales rate would result in an increase in fair value.

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17. INVESTMENT PROPERTIES *(Continued)*

Carrying values of investment properties held by the Group	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of key inputs and significant unobservable inputs to fair value
At 31 December 2014 (Continued)				
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. Estimated cost to completion from RMB1,060 per sq. m. to RMB2,240 per 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

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

	Industrial and ancillary properties in Beijing *HK$'000*	Residential properties in Dalian *HK$'000*	Commercial properties in Dalian *HK$'000*	Total *HK$'000*
At 1 January 2014	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 and 1 January 2015	113,486	222,750	31,233	367,469
Exchange realignment	(4,999)	(8,700)	(1,376)	(15,075)
Development costs paid	–	27,350	77	27,427
Transfer to property, plant and equipment *(Note 16)*	–	(84,175)	–	(84,175)
Fair value changes on investment properties	(2,712)	16,879	(818)	13,349
At 31 December 2015	105,775	174,104	29,116	308,995

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 paid land deposit of RMB17,841,000 (equivalent to approximately HK$22,289,000) for acquisition of land use rights of approximately 91,500 sq. m.. During the year ended 31 December 2015, the land certificate had been obtained and the amount had been transferred into investment properties as land cost of RMB17,841,000 (equivalent to approximately HK$21,996,000).

In 2014, the Group paid land deposit of approximately RMB27,072,000 (equivalent to approximately HK$32,305,000; 2014: equivalent to approximately HK$33,821,000) to acquire pieces of industrial land of approximately 38,100 sq. m. situated at Xinyi, the PRC, to develop shallow ground source energy systems. During the year ended 31 December 2015, partial deposit of RMB1,286,000 (equivalent to HK$1,535,000) was refunded. Up to approval date of the consolidated financial statements, the Group is in the process to obtain the land certificate.

During the year ended 31 December 2015, deposit of RMB12,653,000 (equivalent to HK$15,099,000) has been paid to acquire 54,259 sq. m. of land situated at Xinyi, the PRC. During the year ended 31 December 2015, land with approximately 38,000 sq. m. has been granted to the Group with the cost of RMB5,510,000 (equivalent to approximately HK$6,575,000) and has been transferred into investment properties as land cost. Up to approval date of the consolidated financial statements, the Group is in the process to obtain the land certificate.

As at 31 December 2015, the Group paid land deposit of approximately RMB39,660,000 (equivalent to approximately HK$47,327,000) to acquire pieces of industrial land situated in Yancheng, the PRC. Up to approval date of the consolidated financial statements, the Group is on the process to obtain the land certificate.

19. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

On 31 December 2014, an agreement was entered into between the Company's indirect wholly-owned subsidiary, Hangzhou Ever Source Energy and Technology Ltd. (杭州恒有源能源科技有限公司) ("HYY Hangzhou"), a vendor, Hong Kong Goodway International Holdings Limited (香港嘉德威國際集團有限公司) ("香港嘉德威") and a guarantor, Mr. Chen Zaixian who is 香港嘉德's shareholder, pursuant to which the Group has conditionally agreed to purchase and the vendor has conditionally agreed to sell 100% equity interest of 嘉德威(杭州)生物科技有限公司 Goodway (Hangzhou) Biotechnology Ltd. ("Hangzhou Goodway"), to indirectly acquire the land and buildings held by Hangzhou Goodway, for the consideration of RMB93,000,000 (equivalent to approximately HK$116,250,000), which shall be satisfied by cash.

During the year ended 31 December 2015, the Group had paid the deposit of RMB65,100,000 (equivalent to approximately HK$77,685,000). The deposit will fully refund if the acquisition is not success. Up to the approval date of consolidated financial statements, the transaction has not yet been completed since the condition stated in agreement had not yet been fulfilled.

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20. GOODWILL

	HK$'000
COST AND CARRYING VALUES	
At 1 January 2014	445,850
Arising on acquisition of a subsidiary *(Note 42)*	19,910
At 31 December 2014, 1 January 2015 and 31 December 2015	465,760

Impairment testing on goodwill with indefinite useful lives

For the purposes of impairment testing, goodwill 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 13.23% (2014: 13.43%) per annum. The cash flows beyond the three-year period were extrapolated using a steady growth rate of 3% (2014: 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.

21. INTANGIBLE ASSETS

	Technical know-how HK$'000
COST	
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	6,205
AMORTISATION	
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	6,205
CARRYING VALUES	
At 31 December 2014 and 2015	–

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.

22. INTERESTS IN ASSOCIATES

	2015 HK$'000	2014 HK$'000
Cost of unlisted investments in associates	**40,413**	34,566
Share of post-acquisition results and other comprehensive income, net of dividends received	**(10,676)**	(10,204)
	29,737	24,362

Details of the associates at 31 December 2015 and 31 December 2014 are as follows:

Name of company	Form of entity	Place of incorporation and operation	Registered and paid share capital	Proportion of ownership interest and proportion of voting rights held by the Group 2015	2014	Principal activity
北京永源熱泵有限責任公司 (Beijing Ever Hot Pumps Co., Ltd)* ("BEHP")	Limited liability company	The PRC	US$300,000	**49%**	49%	Production and sales of machines ground source energy system.
宏源地能熱泵科技有限公司 ("地能熱泵") *(Note 1)*	Limited liability company	The PRC	RMB50,000,000 (paid up: RMB4,900,000)	**49%**	–	Production and sales of the shallow ground source energy system.

* English name is for identification purpose only.

Note 1: Newly incorporated on 28 August 2015 with registered capital of RMB50,000,000. As at 31 December 2015, the Group only paid up RMB4,900,000 (approximately HK$5,847,000).

The associates are accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, BEHP is the material associates of the Group for the year ended 31 December 2015. Summarised financial information of the Group's material associate is set out below, which represents amounts shown in the associate's financial statements prepared in accordance with the HKFRSs.

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22. INTERESTS IN ASSOCIATES *(Continued)*

BEHP	2015	2014
	HK$'000	*HK$'000*
Non-current assets	**4,012**	5,185
Current assets	**67,423**	69,670
Current liabilities	**(23,054)**	(26,120)
Non-current liabilities	**–**	–

	2015	2014
	HK$'000	*HK$'000*
Revenue	**43,028**	54,473
Profit for the year	**46**	188
Other comprehensive income (expense) for the year	184	(2,750)
Total comprehensive income (expense) for the year	230	(2,562)
Dividend received from BEHP during the year	**–**	–

Reconciliation of the above summarised financial information to carrying amount of the interest in BEHP recognised is set out below.

	2015	2014
	HK$'000	*HK$'000*
Net assets of BEHP	**48,381**	48,735
Proportion of the Group's ownership interest in BEHP	**49%**	49%
Goodwill	**482**	482
Carrying amount of the Group's interest in BEHP	**24,189**	24,362

22. INTERESTS IN ASSOCIATES *(Continued)*

The financial information and carrying amount, in aggregate, of the Group's interest in associate, that are not individually material and are accounted for using the equity method are set out below:

	2015	2014
	HK$'000	*HK$'000*
The Group's shares of results	**(405)**	–
The Group's shares of other comprehensive expense	**(180)**	–
Aggregate carrying amount of the Group's interest in immaterial associate	**5,548**	–

On 24 January 2014, the Group acquired the remaining 62.03% equity interest in 恒有源投資管理有限公司 ("恒有源投資管理"). Afterwards, 恒有源投資管理 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 恒有源投資管理 *(Note 42)*	25,513
Carrying amount of the Group's interests in 恒有源投資管理	(31,358)
Loss on deemed disposal	(5,845)

23. INTEREST IN A JOINT VENTURE

	2015	2014
	HK$'000	HK$'000
Cost of unlisted investment in a joint venture	**6,568**	–
Share of post-acquisition result	**798**	–
	7,366	–

Details of the Group's joint venture at the end of the reporting period are as follows:

Name of company	Form of entity	Place of incorporation and operation	Registered and paid share capital	Proportion of ownership interests and voting right held by the Group 2015	2014	Principal activity
浙江萬合能源環境科技有限公司 ("浙江萬合") *(Note)*	Limited liability company	The PRC	RMB12,779,000	**47.39%**	–	Exploration and development of energy resources

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23. INTEREST IN A JOINT VENTURE *(Continued)*

Note:

On 18 November 2015, the Group acquired 32.77% equity interest in 浙江萬合 from an independent third party for an cash consideration of RMB2,500,000 (equivalent to approximately HK$2,983,000). 浙江萬合 is engaged in production and sale of ground source energy system. On the same day, the Group injected capital of approximately RMB2,779,000 (equivalent to approximately HK$3,585,000). The equity interest held by the Group in 浙江萬合 increase from 32.77% to 47.39%.

The Group signed an agreement with another shareholder of 浙江萬合, 周家志, who holds 44% equity interest in 浙江萬合. Pursuant to the agreement, decision making process of 浙江萬合 require unanimous consent from the Group and 周家志. The director of the Company regarded 浙江萬合 is a joint venture of the Group.

The joint venture is accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, none of the joint venture is material to the Group for the year ended 31 December 2015.

The financial information and carrying amount, in aggregate, of the Group's joint venture, that is not individually material and are accounted for using the equity method are set out below:

	2015	2014
	HK$'000	*HK$'000*
The Group's share of result	798	–
Aggregate carrying amount of the Group's interest in an immaterial joint venture	7,366	–

24. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
Unlisted investments in the PRC		
Equity securities, at cost *(Note a)*	**45,894**	37,979
Limited partnership, at cost *(Note b)*	**102,625**	124,930
	148,519	162,909
Fund, at fair value *(Note c)*	**60,309**	62,995
	208,828	225,904
Analysed for reporting purposes as:		
Current assets	**102,625**	124,930
Non-current assets	**106,203**	100,974
	208,828	225,904

24. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes:

(a) Included in the amount, RMB30,000,000 (equivalent to approximately HK$35,799,000) (2014: RMB30,000,000 (equivalent to approximately HK$37,479,000)) represented 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.

During the year ended 31 December 2015, the Group has purchased unlisted equity interest in 北京海鑫科金高科技有限公司 ("海鑫科金") of RMB8,009,000 (equivalent to approximately HK$9,558,000). 海鑫科金 is a company incorporated in PRC and is engaged in software and information technology services.

(b) On 19 November 2014, the Group paid an investment of RMB100,000,000 (equivalent to approximately HK$124,930,000) in 上海展天投資管理中心(有限合伙)("上海展天"), by way of a subscription for a limited partnership interest in 上海展天. During the year ended 31 December 2015, the Group has withdrew the investment cost of RMB14,000,000 (equivalent to approximately HK$16,706,000) from 上海展天.

(c) 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$59,666,000; 2014: HK$62,465,000) with fair value gains of RMB116,000 (equivalent to HK$138,000) (2014: RMB423,000 (equivalent to approximately HK$530,000)).

(d) 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.

25. PREPAYMENTS

The prepayments represent the rental prepayment to a related company for leasing two properties in Beijing as a warehouse and for sub-leasing purpose respectively. The lease period were around 8 years commencing from July 2013 and thus an amount of RMB10,506,000 (approximately equivalent to HK$12,537,000) (2014: RMB13,622,000, approximately equivalent to HK$16,844,000) is included under non-current assets. The prepayments due within one year of RMB2,916,000 (approximately equivalent to HK$3,480,000) (2014: RMB2,837,000, approximately equivalent to HK$3,499,000) as at 31 December 2015 has been included in prepayments under current assets (see Note 30).

26. DEFERRED TAX

The followings 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 2014	22,262	(60,136)	(37,874)
Exchange realignment	(290)	2,245	1,955
Charged to profit or loss for the year *(Note 11)*	(3,862)	(4,977)	(8,839)
At 31 December 2014 and 1 January 2015	18,110	(62,868)	(44,758)
Exchange realignment	(293)	2,934	2,641
Credited (charged) to profit or loss for the year *(Note 11)*	9,073	(3,616)	5,457
At 31 December 2015	26,890	(63,550)	(36,660)

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26. DEFERRED TAX *(Continued)*

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

	2015	2014
	HK$'000	*HK$'000*
Deferred tax assets	**26,890**	18,110
Deferred tax liabilities	**(63,550)**	(62,868)
	(36,660)	(44,758)

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 RMB281,363,000 (2014: RMB280,936,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As 31 December 2015, the Group had unused tax losses of approximately HK$208,462,000 (2014: HK$166,382,000), available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$72,925,000 (2014: HK$33,372,000) as at 31 December 2015 that will expire in five years from the dates they were incurred. Other losses may be carried forward indefinitely.

27. INVENTORIES

	2015	2014
	HK$'000	*HK$'000*
Raw materials	**31,217**	29,906
Finished goods	**8,578**	41
	39,795	29,947

28. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	HK$'000
At 1 January 2014	106,005
Exchange realignment	(2,615)
Additions	1,339
At 31 December 2014 and 1 January 2015	104,729
Exchange realignment	(5,312)
Additions	19,271
At 31 December 2015	118,688

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

29. TRADE AND RETENTION RECEIVABLES

	2015	2014
	HK$'000	*HK$'000*
Trade receivables	**215,331**	122,997
Less: allowance for doubtful debts	**(58,651)**	(6,301)
	156,680	116,696
Retention receivables	**69,656**	51,570
	226,336	168,266

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.

	2015	2014
	HK$'000	*HK$'000*
Within 90 days	**48,485**	36,164
91 to 180 days	**52,347**	34,808
181 to 365 days	**11,140**	8,530
Over 365 days	**44,708**	37,194
	156,680	116,696

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$106,328,000 (2014: HK$79,258,000) 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.

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For the year ended 31 December 2015

29. TRADE AND RETENTION RECEIVABLES *(Continued)*

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

	2015	2014
	HK$'000	*HK$'000*
Over 120 days	61,620	42,064
Over 365 days	44,708	37,194
	106,328	79,258

The Group's neither past due nor impaired trade receivables of approximately HK$50,352,000 (2014: HK$37,438,000) 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:

	2015	2014
	HK$'000	*HK$'000*
At 1 January	6,301	10,416
Exchange realignment	(773)	(235)
Impairment losses recognised	54,383	11,570
Impairment losses reversed	(1,260)	(15,450)
At 31 December	58,651	6,301

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$58,651,000 (2014: HK$6,301,000) which have been placed in severe financial difficulties.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	HK$'000	*HK$'000*
Prepayments	55,141	70,396
Rental prepayments – current portion *(Note 25)*	3,480	3,499
Deposits	18,987	25,851
Other receivables	42,300	45,078
Less: allowance for doubtful debts	(4,955)	(3,299)
	114,953	141,525

The Group did not hold any collateral over these balances.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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:

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**3,299**	3,302
Exchange realignment	**(193)**	(3)
Impairment losses recognised	**1,849**	–
At 31 December	**4,955**	3,299

Included in the allowance for doubtful debts are individually impaired deposit and other receivables with an aggregate balance of approximately HK$4,955,000 (2014: HK$3,299,000) which have been placed in severe financial difficulties.

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

	2015	2014
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**499,772**	544,753
Less: progress billings	**(214,084)**	(213,405)
	285,688	331,348
Analysed for reporting purposes as:		
Gross amounts due from customers for contract work	**297,086**	343,659
Gross amounts due to customers for contract work	**(11,398)**	(12,311)
	285,688	331,348

As at 31 December 2015, retentions held by customers for contract works amounted to approximately HK$3,286,000 (2014: HK$3,782,000). Advances received from customers for contract works included in deposits received amounted to approximately HK$2,231,000 (2014: HK$2,334,000). 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 2015, expense in respect of the uncertainty arises about the collectability of the balances amounting to approximately HK$11,181,000 (2014: HK$51,308,000) 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.

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For the year ended 31 December 2015

32. HELD-FOR-TRADING FINANCIAL ASSETS

	2015	2014
	HK$'000	*HK$'000*
Held-for-trading financial assets include:		
Listed securities		
Equity securities listed in Hong Kong	**59**	3,872

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

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

As at 31 December 2015, cash held at non-bank financial institutions carried interest at 0.01% (2014: 0.01%) per annum.

Short-term bank deposits with maturity less than 3 months carried prevailing market deposit rates from 0.15% to 2.35% (2014: 0.69% to 2.75%) per annum.

Bank balances and cash carried prevailing market deposit rates from 0.0001% to 0.35% (2014: 0.0001% to 0.35%) per annum.

34. TRADE PAYABLES

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

	2015	2014
	HK$'000	*HK$'000*
Within 90 days	**38,658**	14,273
91 to 180 days	**17,517**	11,965
181 to 365 days	**36,412**	9,024
Over 365 days	**89,781**	100,938
	182,368	136,200

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

35. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	2015	2014
	HK$'000	*HK$'000*
Accrued liabilities	**107,743**	95,168
Deposits received	**38,633**	30,475
Receipt in advance – current portion *(Note 38)*	**3,407**	2,844
Other payables	**24,186**	23,835
	173,969	152,322

36. AMOUNTS DUE FROM RELATED COMPANIES/NON-CONTROLLING INTERESTS

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

37. AMOUNTS DUE FROM (TO) ASSOCIATES

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

38. RECEIPT IN ADVANCE

The receipt in advance represents the rental receipt in advance for the investment properties. The lease period were 20 years commencing from the completion of the investment properties. The investment properties were completed and the lease has been commenced in December 2014 and balance of HK$5,615,000 (2014: HK$9,446,000) included under non-current liabilities represents rental receipt in advance for the lease payments due after one year. Balance of HK$3,407,000 receipt in advance due within one year (2014: HK$2,844,000) as at 31 December 2015 has been included in receipt in advance under current liabilities (see Note 35).

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39. DEFERRED INCOME

	2015	2014
	HK$'000	*HK$'000*
At 1 January	**8,525**	7,741
Exchange realignment	**(380)**	(189)
Government grants received	**353**	973
Amortisation of deferred income on government grants	**(407)**	–
At 31 December	**8,091**	8,525

As at 31 December 2015, government grants of approximately HK$8,091,000 (2014: HK$8,525,000) were designated for certain research projects. The amount is stated as non-current liabilities as at 31 December 2015 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 2015.

40. BORROWINGS

	2015	2014
	HK$'000	*HK$'000*
Unsecured loan		
– repayable within one year	**477,326**	–
– repayable not within one year	**–**	499,721
	477,326	499,721

In prior years, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$477,326,000 (2014: equivalent to approximately HK$499,721,000)) 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 bears interest at 1 to 3 years benchmark lending interest rate of the Peoples' Bank of China and is repayable in 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 2015 is 7.75% (2014: 7.75%).

41. SHARE CAPITAL

	Number of shares of US$0.01 each		Share capital		Share capital	
	2015	2014	**2015**	2014	**2015**	2014
	'000	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares						
Issued and fully paid:						
At 1 January	**2,904,327**	2,902,827	**29,043**	29,028	**226,170**	226,053
Issue of shares under the Company's share option scheme	**55,608**	1,500	**556**	15	**4,337**	117
Shares repurchased and cancelled during the year	**(59,688)**	–	**(597)**	–	**(4,656)**	–
Shares repurchased in previous year and cancelled during the year	**(8,560)**	–	**(86)**	–	**(667)**	–
At 31 December	**2,891,687**	2,904,327	**28,916**	29,043	**225,184**	226,170

Notes:

(a) On 2 June 2015, 6 July 2015 and 6 August 2015, options were exercised to subscribe for totally 55,608,000 shares in the Company at a consideration of approximately HK$24,904,000 of which approximately HK$4,337,000 was credited to share capital and the balance of approximately HK$20,567,000 was credit to the share premium.

(b) On 29 July 2014, options were exercised to subscribe for 1,500,000 shares in the Company of 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.

(c) During the year ended 31 December 2015, the issued and fully paid shares of 59,688,000 ordinary shares were repurchased and cancelled prior to the end of the reporting period with the highest price of HK$0.41 and the lowest price of HK$0.28. 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 in 2015 with the highest price of HK$0.355 and the lowest price of HK$0.335.

As at 31 December 2015, the total number of issued and fully paid shares included 9,344,000 ordinary shares repurchased prior to the end of the reporting period but cancelled during the year ended 31 December 2016 with the highest price of HK$0.36 and the lowest price of HK$0.33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

41. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(d) During the year ended 31 December 2015 and 2014, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of US$0.01 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
	'000	*HK$*	*HK$*	*HK$'000*
Dec 2014	8,560	0.355	0.335	3,083
Jan 2015	7,120	0.37	0.355	2,583
Mar 2015	4,896	0.37	0.36	1,801
Apr 2015	7,880	0.37	0.345	2,900
Jul 2015	16,136	0.41	0.28	5,342
Oct 2015	23,656	0.355	0.355	8,400
Nov 2015	3,896	0.36	0.33	1,358
Dec 2015	5,448	0.36	0.35	1,935

42. ACQUISITION AND DEREGISTRATION OF SUBSIDIARIES

(i) Acquisition of subsidiaries

For the year ended 31 December 2014

In prior years, the Group hold a 37.97% interest in 恒有源投資管理 (See Note 22). In 2014, the Group acquired the remaining 62.03% equity interest in 恒有源投資管理 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. 恒有源投資管理 is engaged in business planning, consulting and management services and promotion, and becomes a wholly-owned subsidiary of the Group since then. 恒有源投資管理 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.

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

(i) Acquisition of subsidiaries *(Continued)*

For the year ended 31 December 2014 *(Continued)*

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 *(Note 16)*	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

	HK$'000
Goodwill arising on acquisition	
Cash consideration transferred	61,590
Plus: fair value of previously held interest *(Note 22)*	25,513
Less: net assets acquired	(67,193)
Goodwill arising on acquisition	19,910

The fair value of trade and retention receivables at the date of acquisition amounted to approximately HK$18,724,000. The gross contractual amounts of those trade and retention receivables acquired amounted to approximately HK$18,724,000 at the date acquisition. No estimated uncollectible contractual cash flows were expected at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

(i) Acquisition of subsidiaries *(Continued)*

For the year ended 31 December 2014 *(Continued)*

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.

Net cash outflow on acquisition of Ever Source Investment Group

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

Included in the loss for the year ended 31 December 2014 was HK$2,045,000 attributable to the additional business generated by Ever Source Investment Group. No revenue for the year was ended 31 December 2014 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 Group 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.

42. ACQUISITON AND DEREGISTRATION OF SUBSIDIARIES *(Continued)*

(ii) Deregistration of subsidiaries

For the year ended 31 December 2015

During the year ended 31 December 2015, the Group deregistered indirect wholly-owned subsidiaries, Million Triumph Holdings Limited, Speedy Lead Holdings Limited, Superb Success Holdings Limited, Qixin Holdings Limited, Ace Glow Holdings Limited and King Fast Holdings Limited. All of them are dormant companies without any assets and liabilities at their respective dates of deregistration. Thus, no gain or loss on deregistration on subsidiaries was resulted.

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

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 payables	(84)
Accrued liabilities 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 subsidiaries did not have significant contribution to the Group's revenue, result and cash flow for the year.

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43. COMMITMENTS

(i) Operating lease

The Group as lessor

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

	2015	2014
	HK$'000	*HK$'000*
Within one year	12,040	9,476
In the second to fifth years, inclusive	55,870	43,432
Over five years	190,043	202,093
	257,953	255,001

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:

	2015	2014
	HK$'000	*HK$'000*
Within one year	3,890	2,235
In the second to fifth years, inclusive	5,059	2,339
Over five years	1,126	1,723
	10,075	6,297

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for an average term ranging from one to twelve years (2014: one to twelve years). No provision for contingent rent was established in the leases.

(ii) Others

	2015	2014
	HK$'000	*HK$'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– Investment properties under construction	24,185	23,612
– Acquisition of available-for-sale investment	239	–
– Injection of capital into an associate	23,389	–
	47,813	23,612

44. SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan 2010

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

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

The total number of shares which may be issued upon exercise 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 has been obtained.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option 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.

Notes to the Consolidated Financial Statements

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

Share Option Plan 2010 *(Continued)*

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.

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.

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

Share Option Plan 2010 *(Continued)*

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

Year ended 31 December 2015

Date of grant	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2015
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	–	(7,500,000)	–	21,484,000
	87,484,000	–	(7,500,000)	(28,400,000)	51,584,000
Employees					
9 September 2010	129,892,000	–	(13,612,000)	–	116,280,000
6 February 2013	158,600,000	–	–	(158,600,000)	–
11 August 2014	191,016,000	–	(34,496,000)	–	156,520,000
	479,508,000	–	(48,108,000)	(158,600,000)	272,800,000
Others					
11 August 2014	62,000,000	–	–	–	62,000,000
	628,992,000	–	(55,608,000)	(187,000,000)	386,384,000
Exercisable at the end of year					386,384,000
Weighted average exercise price	HK$0.386	N/A	HK$0.448	HK$0.426	HK$0.444

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

Share Option Plan 2010 *(Continued)*

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$0.386

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

Share Option Plan 2010 *(Continued)*

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:

	11 August 2014
Share price on the date of grant	HK$0.455
Exercise price	HK$0.455
Expected volatility	33.86%
Expected life	2 years
Risk-free rate	0.361%
Expected dividend yield	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$7,747,000 for the year ended 31 December 2015 (2014: HK$16,865,000) in relation to share options granted by the Company.

45. RETIREMENT BENEFITS SCHEME

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

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

The total expenses recognised in profit or loss of HK$10,808,000 (2014: HK$9,176,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

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46. RELATED PARTY TRANSACTIONS

(a) Prepayments to a related company, amounts due from (to) related companies, non-controlling interests and associates are included in the consolidated statement of financial position. The terms are set out in Notes 25, 36 and 37 respectively.

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

	2015	2014
	HK$'000	*HK$'000*
Sales to related companies* *(Note 1)*	**(2,864)**	(6,276)
Purchase from an associate *(Note 2)*	**21,868**	10,418
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 2015 as defined in Chapter 20 of the GEM Listing Rules.

Note 1: The Group sold goods to 中節能環保投資發展(江西)有限公司 and 成都中節能綠建投資有限公司 which are the fellow subsidiaries of the Company.

Note 2: The Group purchased goods from an associate, BEHP.

(c) Included in trade and retention receivables, there is a balance amounted to approximately HK$551,000 (2014: HK$549,000) 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 Limited, 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:

	2015	2014
	HK$'000	*HK$'000*
Short-term benefits	**8,481**	8,730
Retirement benefits scheme contributions	**50**	43
Share-based payment	**933**	1,591
	9,464	10,364

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

47. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2014, the Group 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 was paid in the year ended 31 December 2013 and recognised as a deposit paid.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2015 HK$'000	2014 HK$'000
Non-Current Assets			
Property, plant and equipment		**7**	230
Interests in subsidiaries	*(a)*	**836,134**	836,134
		836,141	836,364
Current Assets			
Prepayments, deposits and other receivables		**1,455**	969
Amounts due from subsidiaries	*(a)*	**429,017**	406,372
Bank balances and cash		**38,170**	76,464
		468,642	483,805
Current Liabilities			
Accrued liabilities and other payables		**2,206**	2,106
Amounts due to subsidiaries	*(b)*	**28,678**	36,485
		30,884	38,591
Net Current Assets		**437,758**	445,214
Net Assets		**1,273,899**	1,281,578
Capital and Reserves			
Share capital		**225,184**	226,170
Reserves	*(c)*	**1,048,715**	1,055,408
Total Equity		**1,273,899**	1,281,578

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

Notes:

(a) Interests in subsidiaries

	Notes	**2015**	2014
		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)*	**429,017**	406,372
		1,496,039	1,473,394
Less: Impairment loss recognised on investments		**(43,437)**	(43,437)
Impairment loss recognised on amounts due from subsidiaries – non-current		**(187,451)**	(187,451)
		(230,888)	(230,888)
		1,265,151	1,242,506
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**429,017**	406,372
		1,265,151	1,242,506

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

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

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

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

Notes: (Continued)

(c) Reserves

	Share premium *(Note i)*	Contributed surplus *(Note ii)*	Treasury shares	Share-based payment reserve	Capital reserve *(Note iii)*	Translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2014	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 44)*	803	–	–	(281)	–	–	–	522
Repurchase of ordinary shares *(Note 41)*	–	–	(3,083)	–	–	–	–	(3,083)
Recognition of share-based payment expenses *(Note 44)*	–	–	–	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 *(Note 44)*	–	–	–	(752)	–	–	752	–
At 31 December 2014 and 1 January 2015	867,885	154,381	(3,083)	68,804	32,235	–	(64,814)	1,055,408
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(16,011)	(16,011)
Issue of shares upon exercise of share options *(Note 44)*	26,585	–	–	(6,018)	–	–	–	20,567
Repurchase of ordinary shares *(Note 41)*	(18,786)	–	(210)	–	–	–	–	(18,996)
Recognition of share-based payment expenses *(Note 44)*	–	–	–	7,747	–	–	–	7,747
Lapse of share options *(Note 44)*	–	–	–	(19,391)	–	–	19,391	–
At 31 December 2015	875,684	154,381	(3,293)	51,142	32,235	–	(61,434)	1,048,715

(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.

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2015 and 2014 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				
				2015	2014	**2015**	2014	**2015**	2014	
CGSE Ever Source Group Limited (formerly known as 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	–	–	**100%**	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	–	–	**94.82%**	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	–	–	**94.61%**	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	–	–	**94.82%**	94.58%	**100%**	100%	Installation of energy systems
金恒源#	The PRC	Registered capital	RMB10,000,000	–	–	**48.25%**	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	–	–	**100%**	99.97%	**100%**	100%	Properties investment and development
Guangsha# *(Note i)*	The PRC	Registered capital	RMB3,000,000	–	–	–	–	**100%**	100%	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.

(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.

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.

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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

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	
		2015	2014
Investment holding	Hong Kong	**10**	10
Investment holding	Cayman Islands	**1**	1
Investment holding	BVI	**6**	12
Properties investment and development	The PRC	**6**	6
		23	29

Principle activity	Place of incorporation and operation	Number of non-wholly-owned subsidiaries	
		2015	2014
Investment holding	Hong Kong	**2**	2
Investment holding	BVI	**1**	1
Production and sales of geothermal energy systems	The PRC	**13**	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**	1
		19	18

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of effective interests held by non-controlling interests		Voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
						HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HYY	The PRC	**5.39%**	5.42%	**5.39%**	5.39%	**(1,969)**	(864)	**22,050**	24,910
金恒源	The PRC	**51.75%**	51.76%	**49%**	49%	**(1,455)**	12,182	**27,483**	30,248
Individually immaterial subsidiaries with non-controlling interests						**2,824**	(6,771)	**(5,110)**	(14,226)
						(600)	4,547	**44,423**	40,932

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

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

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

HYY

	2015	2014
	HK$'000	*HK$'000*
Non-current assets	**742,932**	870,084
Current assets	**840,867**	770,106
Current liabilities	**(687,307)**	(664,808)
Non-current liabilities	**(487,405)**	(515,792)
Equity attributable to owners of the Company	**387,037**	434,680
Non-controlling interests	**22,050**	24,910
Revenue	**107,994**	131,837
Expenses	**(144,532)**	(147,775)
Loss for the year	**(36,538)**	(15,938)
Loss attributable to owners of the Company	**(34,569)**	(15,074)
Loss attributable to the non-controlling interests	**(1,969)**	(864)
Loss for the year	**(36,538)**	(15,938)
Other comprehensive expense to owners of the Company	**(5,598)**	(4,970)
Other comprehensive expense to the non-controlling interests	**(319)**	(285)
Other comprehensive expense for the year	**(5,917)**	(5,255)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

HYY *(Continued)*

	2015	2014
	HK$'000	*HK$'000*
Total comprehensive expense to owners of the Company	**(40,167)**	(20,044)
Total comprehensive expense to the non-controlling interests	**(2,288)**	(1,149)
Total comprehensive expense for the year	**(42,455)**	(21,193)
Dividend paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**22,234**	(10,103)
Net cash (outflow) inflow from investing activities	**(20,552)**	98,306
Net cash outflow from financing activities	**(38,806)**	(39,378)
Net cash (outflow) inflow	**(37,124)**	48,825

金恒源

	2015	2014
	HK$'000	*HK$'000*
Non-current assets	**64**	144
Current assets	**149,723**	145,691
Current liabilities	**(96,690)**	(87,397)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**25,619**	28,190
Non-controlling interests	**27,478**	30,248

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

金恒源 *(Continued)*

	2015 HK$'000	2014 HK$'000
Revenue	4	36,767
Expenses	(2,816)	(13,232)
(Loss) profit for the year	(2,812)	23,535
(Loss) profit attributable to owners of the Company	(1,357)	11,353
(Loss) profit attributable to the non-controlling interests	(1,455)	12,182
(Loss) profit for the year	(2,812)	23,535
Other comprehensive expense to owners of the Company	(1,220)	(495)
Other comprehensive expense to the non-controlling interests	(1,309)	(532)
Other comprehensive expense for the year	(2,529)	(1,027)
Total comprehensive (expense) income to owners of the Company	(2,577)	10,858
Total comprehensive (expense) income to the non-controlling interests	(2,764)	11,650
Total comprehensive (expense) income for the year	(5,341)	22,508
Dividend paid to non-controlling interests	–	–
Net cash outflow from operating activities	(4,145)	(557)
Net cash inflow from investing activities	8,263	1,963
Net cash inflow from financing activities	–	–
Net cash inflow	4,118	1,406

50. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2016, a share transfer agreement was entered into between the Company's indirect wholly-owned subsidiary, 北控恒有源能源有限公司 ("北控恒有源") and 北京市四博連通用機械新技術公司 ("北京市四博連"), pursuant to which 北控恒有源 agreed to purchase and 北京市四博連 agreed to sell, the 5.387% equity interest in 恒有源科技發展集團有限公司 at the consideration of RMB15,750,000 (equivalent to approximately HK$18,900,000).

On 2 February 2016, the acquisition has been completed. Thereafter, 恒有源科技發展集團有限公司 becomes an indirect wholly-owned subsidiary of the Group.

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 2017