中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

TECHNOLOGY AND RESOURCES LINKS

Annual Report 2016

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

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

Contents

BOARD OF DIRECTORS

Executive directors

Liu Dajun
Xu Shengheng
Chan Wai Kay Katherine
Wang Manquan
Zang Yiran
Daiqi

Non-executive director

Zhao Youmin

Independent non-executive directors

Jia Wenzeng
Wu Desheng
Wu Qiang
Guo Qingui
Zhang Honghai *(Resigned on 1 January 2017)*

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 3709-10, 37/F, The Center
99 Queen's Road Central
Central
Hong Kong

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Wu Desheng
Wu Qiang
Guo Qingui
Zhang Honghai *(Resigned on 1 January 2017)*

REMUNERATION COMMITTEE

Zhang Honghai *(Chairman)(Resigned on 1 January 2017)*
Wu Desheng *(Chairman)*
(Appointed as Chairman on 1 January 2017)
Liu Dajun *(Deputy Chairman)*
Xu Shengheng *(Deputy Chairman)*
Jia Wenzeng
Wu Qiang
Guo Qingui

NOMINATION COMMITTEE

Xu Shengheng *(Chairman)*
Liu Dajun *(Deputy Chairman)*
Jia Wenzeng
Wu Desheng
Wu Qiang
Guo Qingui
Zhang Honghai *(Resigned on 1 January 2017)*

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
The Chinese Club Building
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 2016 (the "Review Period").

The year of 2016 marks the start of a golden period for business development of the Group. On December 24, President Xi vowed to address 6 major concerns in the country's long-term development, top of which is to achieve clean heating in winters of North China. Clean heating in North China not only means efficient heating in winters, but also contributes to substantial reduction of smoggy days in North China. This composes an important chapter of the revolution in energy generation and consumption, and the upgrading of rural livelihood.

Years of successful practice in this area have endowed us with more profound understanding of President Xi's words, as it navigates our growth. For us, local adaptability is the source of our technological innovation, and pollution reduction in its application areas is the guarantee for emission reduction.

1. Highly efficient use of electricity replaces coal consumption in heating, to formulate a heating chain that depends on renewable energy consumption and supported by electricity networks. This will help to formulate an industrial chain of clean heating energy that suits north China best.

2. In the new era, i) the most efficient mode of energy consumption for households is to use gas for cooking and ground source energy for heating. ii) the third energy revolution is undergoing in the heating industry, i.e. taking renewable shallow-ground source energy as the substitute heating energy, supplemented by air-sourced energy, to achieve graded utilization of energies. iii) based on renewable energy heating network and supported by efficient power grid, a household-based heating infrastructure in rural areas is built up to greatly improve living qualities there.

Chinese government has listed shallow-ground source energy heating as a measure to cure smog and promulgated its geo-energy development plan in the thirteenth Five-Year Plan. It is expected that by the year of 2020, the area heated by shallow-ground energy will increase by another 700 million m^2, with total market value exceeding RMB200 billion Yuan. Heating is a rigid demand. The iron-fisted measures taken by the Government in curing smog has ushered in a golden period of high-speed leap forward growth for the Group.

The Group has been dedicating to the R&D and application of using shallow-ground source energy as substitute energy for heating. By combining its original innovative technology with heat pumps, the low-temperature shallow-ground source energy can effectively replace coal in producing heating for buildings. It is not only a success in industrializing its original technology, but more importantly a great contribution to the industrial escalation in heating sector, transforming the traditional combustion-based heating industry into a new industry featuring integrated heating and cooling based on ground source energy. Years of continuous endeavor of the Group evidenced a successful route to cure smog by providing smart heating for building free of combustion, emission and pollution.

While developing in the new industry of integrated heating and cooling with ground source energy, the Group has formulated five business lines, i.e. design and planning, collection and supply of renewable energy, smart manufacturing, engineer and construction, as well as operation and maintenance. In the reviewed period, the Group has launched a motion of "Fight for 70-Day in Beijing, Tianjin and Hebei", completed a series of projects called as "Heating Villages with Ground Source Energy by Substituting Coal with High Efficient Use of Electricity" in Xizhai village, Lijiafen village, Liuminying village, and Longquanwu village in Beijing, as well as Huailai and Baocun in Hebei. The projects have achieve very remarkable results and been highly appraised by local governments and residence. 7000 households of more than 1.4 milllion m^2 are now heated with shallow-ground renewable energy, free of combustion and emission.

In the reviewed period, the Company reaped a revenue of HK$619,053,000, recording a nearly 94% of increase over the same period of 2015, a big breakthrough growth of the Company. However, due to decreased profit margin, the Company realized a net loss of HK$31,629,000.

Looking ahead, the Group will continue to excel in the industry of integrated heating and cooling with shallow-ground source energy, as a service provider for smart heating.

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

With best regards,

Xu Shengheng
Joint Chairman of the Board

FINANCIAL REVIEW

For the year ended 31 December 2016, the loss for the year of the Group amounted to approximately HK$31.629 million and revenue amounted to HK$619.053 million as compared with the loss of the Group amounted to HK$48.106 million and revenue amounted to approximately HK$319.354 million for the year ended 31 December 2015.

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 2016 and 2015.

	2016		2015	
	HK$'000	**%**	*HK$'000*	%
Turnover:				
– Shallow ground energy utilisation system	**428,413**	**69.2**	298,820	93.6
– Air conditioning heat pump	**172,518**	**27.8**	–	–
– Properties investment and development	**18,122**	**3.0**	20,534	6.4
– Total turnover	**619,053**	**100**	319,354	100

OPERATION RESULTS

Total revenue from operations for the year ended 31 December 2016 was approximately HK$619.053 million as compared with HK$319.354 million for the year ended 31 December 2015. Revenue from the traditional shallow ground source energy utilisation systems had increased during the year due to the fact that the Group promoted renewable energy heating in northern China vigorously, and obtained coal to electricity projects in the Beijing and the surrounding areas. The Group also strengthened sale and promotion, more sales staff were recruited, hence, the Group secured additional projects. In addition, the Group commenced the trading business of air conditioning heat pump products. Thus, the revenue increased during the year.

During the year ended 31 December 2016, the Group recorded a net loss of approximately HK$31.629 million compared with net loss of approximately HK$48.106 million for the year ended 31 December 2015.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2016 was approximately HK$110.599 million, represented the gross profit margin of 17.9% (2015: approximately HK$119.733 million, represented the gross profit margin of 37.5%). The gross profit margin decreased, it was mainly attributable to the fact that the Group built certain demonstration projects in new districts with low gross profit during the year. Although the number of projects and the revenue increased, the overall gross profit margin of the Group as compared with last year had decreased due to these low gross profit contracts. Besides, since the trading of air conditioning heat pump products is a competitive business in the mainland China, the related gross profit was low. As stated above, the gross profit was lower as compared with last year.

Management Discussion and Analysis

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year increased by approximately HK$2.145 million, or 7.4% as compared with that of the year ended 31 December 2015. The selling and distribution expenses increased was mainly attributable to the increase in number of marketing staff for the promotion of the business, especially Ground Source Heating Devices, hence salaries and related selling and distribution expenses rose this year.

Administrative expenses amounted to approximately HK$122.208 million and HK$121.798 million for the years ended 31 December 2016 and 2015 respectively. The increase in administrative expenses as compared with last financial reporting period was mainly due to the increase in staff costs and research costs.

During the year ended 31 December 2016, the Group incurred share-based payment expenses of HK$5.309 million (2015: 7.747 million) which was due to the fact that the Group granted share options to directors, officers, employees and business partners which lead to the related expenses.

ORDER BOOK

As at 31 December 2016, the Group had contracts on hand of approximately HK$572,484,000 (2015: HK$345,598,000).

SEGMENTAL INFORMATION

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

Shallow ground source energy

The Group had committed to promote the non-combustion integrated heating and cooling emerging industry development. To further optimise the existing resources and consolidate the industrial chain service capabilities, the Group formed four professional segments: 1) provision of shallow ground source energy, 2) intelligent manufacturing, 3) maintenance and management of intelligent heating (cold) system, 4) intelligent heating engineering.

Air conditioning heat pump

The Group commenced the trading business of air conditioning heat pump products in order to expand the scope of business of the Group during the year.

Securities investment and trading

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

Properties investment and development

The Group had expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang 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 to the consolidated financial statements of this report.

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2016 was approximately HK$362.344 million (2015: approximately HK$153.640 million). In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$446,662,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest rate at 7% per annum and is repayable in 2019 according to the entrusted loan agreement. As at 31 December 2016, the Group had cash and bank balances of approximately HK$70.119 million (2015: approximately HK$136.199 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2016, no assets of the Group have been charged (2015: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

As at 31 December 2016, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing borrowings) to the equity (including all capital and reserves) of the Company, was 32.0% as at 31 December 2016 (2015: 32.3%). The gearing ratio was maintained at similar level as compared with last year.

EMPLOYEES

As at 31 December 2016, the Group has approximately 650 employees (2015: approximately 670). 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 45 to the consolidated financial statements of this report.

At 31 December 2016, the number of shares options had been granted and remained outstanding under the Share Option Plan 2010 was 433,020,000, representing approximately 15% of the shares of the Company in issue at that date (2015: 386,384,000, representing approximately 13% of the shares of the Company in issue at 31 December 2015). During the year ended 31 December 2016, 287,632,000 options were granted on 8 December 2016, the estimated fair values of the options granted on that date was approximately HK$17.943 million.

CONTINGENT LIABILITIES

As at 31 December 2016, 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 2016 (2015: Nil).

Management Discussion and Analysis

CAPITAL STRUCTURE

During the year, 5,968,000 shares of US$0.01 each were repurchased by the Company at prices ranging from HK$0.34 to HK$0.36 per share through the Stock Exchange. The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company. As at 31 December 2016, the total number of issued and fully paid shares was 2,876,375,117. Details of the repurchase of shares are set out in note 41 to the consolidated financial statement of this report.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitments are set out in note 44 to the consolidated financial statements of this report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

The 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 is a demonstration of the shallow ground source energy developed and utilised by the Group.

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisitions and disposal transactions are set out in notes 17, 42 and 43 to the consolidated financial statement of this report.

BUSINESS REVIEW AND OUTLOOK

The president Xi Jinping raised six most concerning issues in 2016, the first one is the clean heating service in winter in Chinese northern region: To develop clean heating for the Chinese northern region has the significant relations on residents' warm winter, reducing the fog and haze, as well as the important content of revolution of energy production and consumption, and life style in rural area, which point out the clear direction for the Group's healthy development. During this year, the nation focuses on the implementation of "Coal to clean energy" to replace coal resource with high efficient electricity by using matured power grid to support renewable energy network, establishing individual heating infrastructures in rural areas. We grasped the opportunity to launch the operation of "Fight for 70 days in Beijing, Hebei and Tianjin " to carry out no-coal transformation projects for whole village—"Heating for Villages with Ground Source Energy" in rural area in Beijing and Hebei regions, installing HYY Ground Source Heating Device to realize energy revolution shifting from traditional coal-based heating to renewable ground source energy heating with renewable ground source energy as primary heating energy and complemented by electric power. We achieved installations of over 30,000 sets in total of HYY Ground Source Heating Device for different villages covering heating area of over 1 million square meters. Among these projects, Xizha Village in Haidian District as the first start and completion project received high recognition and appreciation from leaders at all levels in Beijing; modification work for 1,500 households was completed in Longquanwu Village offering heating/cooling service with ground source energy for over 10,000 people; Yihebao Village as the first village to complete the Coal to electricity project in Hebei region and 246 households have enjoyed the life quality improvement by intelligent heating with no combustion. Ground source energy as substitute energy for providing intelligent heating for buildings with no combustion and zero emission has already proven by the "Program of Replacing Coal with High-Efficiency Electricity — Heating for Villages with Ground Source Energy".

The Chinese government has already considered ground source energy as one of the effective way to eliminate haze, and formulated 13.5 development plan of geothermal energy. Expected to 2020, heating area by using ground source energy will be increased by 700 million square meters with market size over RMB200 billion. According to the development plan of government, the Group has already formulated 13.5 development program of the Group which will actively establish the four major segments, i.e. provision of ground source energy, intelligent heating engineering, maintenance and management of intelligent heating and intelligent manufacturing, building the brands of HYY and Hong Yuan to become the first brand in intelligent heating industry and to become the first production capacity in the emerging industry of integrated heating and cooling system with ground source energy in order to striving to be the pioneer in this industry.

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

Meanwhile, in cooperation with the well-known industrial software development company in the PRC to develop 3D design tools so as to enhancing the product design ability and efficiency. The Group also has continued its policy on the investment in research and development to guarantee the competitive edge of advance technology. At the same time, the Group also cooperates with the third party to build intelligent heating information and monitoring platform to realise the real time monitoring of the project site, machine house, on-line monitoring the system operation data, and provision of real time technical guidance in maintenance project site, achieving automatic, intelligent, and integrated information management to collect the customers' opinion and provide prompt response to different problems, and using big data to improve project management level.

In the future, the Group will insist to stick to the market as its guide; to satisfy the customers demand as its target; consultation service as its lead, technology integration as its foundation, products manufacturing as its base, and application demonstration project as its support so as to enhancing our technology and service capability comprehensively. The Group will remember its original intention and continue to focus on the development and research of ground source energy as substitute energy for heating and the industrialization development of original technology, striving to become the best solution service provider of intelligent heating and cooling system.

Biography of Directors

Mr. Liu Dajun ("Mr. Liu"), aged 46, 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), the director and general manager 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 54, the joint chairman of the Board and executive Director of the Company. Mr. Xu holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has long been engaged in the field of heating provision. Prior to year 2000, he mainly engaged in the combustion-based heating. Since year 2000, he is committed to non-combustion heating. The original renewable shallow ground source energy collection technology developed by Mr. Xu has realized the industrialization development and is the core technology of the integrated heating/cooling emerging industry of the Group. Mr. Xu is also a director of most of the subsidiaries of the Company.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 57, 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. Ms. Chan is also a director of certain subsidiaries of the Company.

Mr. Wang Manquan ("Mr. Wang"), aged 54, the chief executive officer and executive Director, Senior Engineer, graduated from Beijing Municipal Committee of the CPC Party School with a bachelor's degree in Business Management in 2007. He joined in Ever Source Science and Technology Development Group Co., Limited*, a wholly owned subsidiary of the Company, in 2001. Previously, Mr. Wang was the vice president of Ever Source Science and Technology Development Group Co., Ltd.* and currently serves as the chief executive officer of the company and general manager of Ever Source Science and Technology Development Group Co., Ltd.. Prior to joining in the Group, Mr. Wang served as the head of Beijing Haidian Sijiqing Heat Exchanger Factory. Mr. Wang has been engaged in leadership of project management for mechanical and electrical equipment installation for more than 15 years, and specializes in comprehensive application technology of geothermal energy heating system. He has extensive business management experience. Mr. Wang is also a director of certain subsidiaries of the Company.

Mr. Zang Yiran ("Mr. Zang"), aged 38, 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. Zang is also a director of certain subsidiaries of the Company.

Mr. Dai Qi, aged 34, 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 China Energy Conservation and Environmental Protection Group. Besides, he acted as deputy general manager of Investment and Capital Operation Department of CECEP (HK). He has been acting as Administrative Director of the Company since September 2012. Mr. Dai is also currently the vice president of the Group and vice president of Ever Source Science and Technology Development Group Co., Ltd.*

Mr. Zhao Youmin ("Mr. Zhao"), aged 45, 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 and the chairman of its associate company, CECEP Environmental Consulting Group Co., Ltd..

Mr. Jia Wenzeng ("Mr. Jia"), aged 73, 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 77, 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.

Mr. Wu Qiang ("Mr. Wu"), aged 57, graduated from China University of Geosciences, Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology, Beijing and a member of China Academy of Engineering. Mr. Wu was honored with the "Li Siguang Geological Science Award" and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first "Outstanding Postdoctoral Award of China", "National Outstanding Teacher" and the State-selected candidate of the first project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is a member of the Executive Council of International Mine Water Association (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and the Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology, a member of Commission of Technology under State Administration of Work Safety and the head of "Expert Panel On Hydrogeology" under the State Administration of Coal Mine Safety.

Mr. Wu has published many books and over 300 academic articles. His works were honored with two Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 40 invention patens were granted by Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. Mr. Wu has trained dozens of post-doctoral fellows and doctoral candidates. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the "Team of Safety in Mines" of China Association for Science and Technology.

Mr. Guo Qingui ("Mr. Guo"), aged 44, graduated from the School of Law of Zhengzhou University. Mr. Guo obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China, he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing) and King & Wood Mallesons. He currently serves as a managing partner and a lawyer of Zhongxin Law Firm in Beijing.

Mr. Zhang Honghai* ("Mr. Zhang"), aged 64, 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. Zhang Honghai resigned as independent non-executive Director of the Company on 1 January 2017.*

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 50 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2016 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 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 36 to 133.

The directors do not recommend the payment of any dividend for the year ended 31 December 2016.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2016 and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 5 to 9. An analysis of the Group's performance during the year ended 31 December 2016 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 2016, 2015, 2014 and 2013 and for the nine months ended 31 December 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
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**619,053**	319,354	283,601	363,662	230,990
(Loss) profit before tax	**(9,524)**	(22,959)	(19,293)	155,249	73,501
Income tax expense	**(22,105)**	(25,147)	(29,666)	(55,949)	(27,445)
(Loss) profit for the year/period	**(31,629)**	(48,106)	(48,959)	99,300	46,056
Attributable to:					
Owners of the Company	**(30,816)**	(47,506)	(53,506)	101,810	45,951
Non-controlling interests	**(813)**	(600)	4,547	(2,510)	105
	(31,629)	(48,106)	(48,959)	99,300	46,056

Assets, liabilities and non-controlling interests

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**2,531,069**	2,581,798	2,618,847	2,695,296	1,990,813
Total liabilities	**(1,089,767)**	(1,061,347)	(1,009,316)	(1,014,726)	(450,995)
Non-controlling interests	**(45,455)**	(44,423)	(40,932)	(37,958)	(39,680)
Equity attributable to equity holders of the Company	**1,395,847**	1,476,028	1,568,599	1,642,612	1,500,138

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued as at 31 December 2016. The revaluation resulted in a gain over book values amounting to approximately HK$1,869,000, which has been credited directly to the assets revaluation reserve.

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

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the end of the year. The increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to approximately HK$23,256,000. 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 as at 31 December 2016 are set out on page 134 of the annual report.

SHARE CAPITAL

As at 31 December 2016, 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 2,876,375,117 ordinary shares of US$0.01 each.

Details of movements in the Company's share capital during the year, together with the reasons therefore, are set out in 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.

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2016, 5,968,000 shares of US$0.01 each were repurchased by the Company at prices ranging from HK$0.34 to HK$0.36 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 49 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 2016, the Company's reserve available for distribution amounted to approximately HK$815,816,000 (2015: HK$814,250,000) 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 2016, 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 42% (2015: 15%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 22% (2015: 4%). Purchases from the Group's five largest suppliers accounted for approximately 62% (2015: 25%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 34% (2015: 13%).

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)*
Mr. Xu Shengheng *(Joint Chairman)*
Ms. Chan Wai Kay Katherine *(Deputy Chairman)*
Mr. Wang Manquan *(Chief executive Officer) (Appointed on 29 December 2016)*
Mr. Zang Yiran *(Chief Financial Officer)*
Mr. Daiqi *(Re-designated as executive director on 29 December 2016)*

Non-executive director:

Mr. Zhao Youmin

Independent non-executive directors:

Mr. Jia Wenzeng
Mr. Wu Desheng
Mr. Wu Qiang *(Appointed on 29 December 2016)*
Mr. Guo Qingui *(Appointed on 29 December 2016)*
Mr. Zhang Honghai *(Resigned on 1 January 2017)*

Note: In accordance with article 84(3) and 85 of the Company's articles of association, Mr. Wang Manquan, Mr. Daiqi, Mr. Zhao Youmin, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui 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 10 to 11 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 47 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.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors for the year ended 31 December 2016 is set out below:

- Mr. Xu Shengheng resigned as the chief executive officer of the Company with effect from 6 July 2016.
- Mr. Wang Manquan was appointed as the chief executive officer of the Company with effect from 13 July 2016 and subsequently was appointed as executive Director with effect from 29 December 2016.
- Mr. Dai Qi was re-designated from his position as non-executive Director of the Company to executive Director of the Company with effect from 29 December 2016.

Report of the Directors

- Mr. Wu Qiang was appointed as independent non-executive Director of the Company with effect from 29 December 2016.
- Mr. Guo Qingui was appointed as independent non-executive Director of the Company with effect from 29 December 2016.
- Mr. Zhang Honghai resigned as independent non-executive Director of the Company with effect from 1 January 2017.
- The Company received notice from Ms. Chan Wai Kay, Katherine, an executive Director of the Company, informing that she resigned as an executive director of Skyworth Digital Holdings Limited (Stock Code 751) with effect from 1 October 2016.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules for the year ended 31 December 2016.

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 2016, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

	Number of issued ordinary shares of US$0.01 each in the Company held and the capacity					
Name of director	Capacity	Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
Mr. Xu Shengheng	Beneficial owner	508,319,000 (L)	17.67%	33,600,000 (L)	542,621,000 (L)	18.86%
(Note 1)	Beneficial owner	508,300,000 (S)	17.67%	–	508,300,000 (S)	17.67%
	Interest of spouse	702,000 (L)	0.02%	–		
Ms. Chan Wai Kay	Beneficial owner	41,636,000 (L)	1.45%	39,000,000 (L)	90,710,000 (L)	3.15%
Katherine *(Note 2)*	Interest of spouse	10,074,000 (L)	0.35%	–		
Mr. Wang Manquan *(Note 3)*	Beneficial owner	512,000 (L)	0.02%	27,000,000 (L)	27,512,000 (L)	0.96%
Mr. Jia Wenzeng *(Note 4)*	Beneficial owner	–	–	4,300,000 (L)	4,300,000 (L)	0.15%
Mr. Wu Desheng *(Note 5)*	Beneficial owner	–	–	2,800,000 (L)	2,800,000 (L)	0.10%

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

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

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

Notes:

1. Mr. Xu Shengheng ("Mr. Xu") is interested in 508,319,000 Shares and 33,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.

2. Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 41,636,000 shares and 39,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond ("Mr. Chow"), spouse of Ms. Chan, holds 10,074,000 Shares. Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.

3. Mr. Wang Manquan is interested in 512,000 Shares and 27,000,000 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. Jia Wenzeng is interested in 4,300,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

5. Mr. Wu Desheng is interested in 2,800,000 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 2016, 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 2016
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000

Report of the Directors

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

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

The Share Option Plan *(Continued)*

Name of director	Date of grant	Exercise period	Exercise price per share *HK$*	Number of share options outstanding as at 31 December 2016
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667
		9 September 2012 to 8 September 2020	0.426	1,666,667
		9 September 2013 to 8 September 2020	0.426	1,666,666
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000

Save as disclosed above, as at 31 December 2016, 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 45 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 45 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 December 2016, 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)	29.55%	–	850,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group *(Note 1)*	Interest of controlled corporation	850,000,000 (L)	29.55%	–	850,000,000 (L)	29.55%
Ms. Luk Hoi Man *(Note 2)*	Beneficial owner	702,000 (L)	0.02%	–		
	Interest of spouse	508,319,000 (L)	17.67%	33,600,000 (L)	542,621,000 (L)	18.86%
	Interest of spouse	508,300,000 (S)	17.67%	–	508,300,000 (S)	17.67%

(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 33,600,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 33,600,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 31 December 2016, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

Report of the Directors

CONNECTED TRANSACTIONS

Continuing Connected Transactions not exempt from Independent Shareholders' Approval Requirements

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

(1) Financial services agreement

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

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

The annual caps for the Loan and Guarantee Services to be provided by Finance Company to the Group and the maximum daily deposit amount with Finance Company for the period from 30 May 2016 to 31 December 2016 (the "Relevant Period") were RMB1,070,000,000 and RMB250,000,000 respectively. The actual maximum amount of Loan and Guarantee Services for the Relevant Period was zero and the actual daily balance recorded for the Deposit Services for the Relevant Period was approximately RMB5,000.

(2) Sale and purchase framework agreement

On 4 May 2016, the Company entered into the sale and purchase framework agreement with China Energy Conservation and Environmental Protection Group 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 supply of the products and provision of services. The term of the sale and purchase framework agreement is from the date of the Independent Shareholders' approval of the sale and purchase framework agreement to 31 December 2018.

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

The annual caps for the supply of the Products and provision of Services by the Company and its subsidiaries under the Sale and Purchase Framework Agreement for the period from 26 September 2016 to 31 December 2016 (the "Period") was RMB80,000,000. The actual amount recorded for the supply of the Products and provision of Services by the Company and its subsidiaries to CECEP and its subsidiaries for the Period was approximately RMB1,292,000.

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

The independent non-executive Directors have confirmed the above continuing connected transactions in accordance with Rule 20.53 of the GEM Listing Rules that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or better, and in accordance with the terms of the relevant agreements governing such transactions that are fair and reasonable and in the interests of the shareholders as a whole.

Exempted Connected Transactions

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

(2) On 15 September 2016, CECEP and HYY entered into the guarantee service agreement, pursuant to which, CECEP agreed to provide guarantee for the Loan granted to HYY by the Fund Company (through Huishang Bank as its lending agent) and HYY agreed to pay to CECEP the guarantee fee at the rate of 2% per annum on the amount of the Loan. The guarantee service agreement constituted a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratios of the guarantee fee payable by HYY to CECEP for the guarantee service under the guarantee service agreement is less than 5%, the guarantee service is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 20.74(2) of the GEM Listing Rules.

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

Details of other significant related party transactions of the Group during the year ended 31 December 2016 are set out in note 47 to the consolidated financial statements.

REMUNERATION POLICY

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

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

The Company has adopted a share option plan as an incentive to the Directors and eligible employees. Details of the share option plan are set out in note 45 to the consolidated financial statements of this report.

COMPETITION AND CONFLICT OF INTERESTS

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

Report of the Directors

AUDIT COMMITTEE

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

The Audit Committee comprises four independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2016 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of the events after reporting period of the Group are set out in note 51 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2016 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

Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 29 March 2017

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2016.

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 2016 (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 2016, the Board comprised of twelve Directors including six executive Directors, namely Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Daiqi, an non-executive Director namely Mr. Zhao Youmin and five independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng. Mr. Zhang Honghai (resigned on 1 January 2017), Mr. Wu Qiang and Mr. Guo Qingui.

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

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

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

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

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 31 December 2016, a total of ten 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 2016, ten 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	10/10	N/A	3/3	3/3	3/3
Mr. Xu Shengheng	10/10	N/A	3/3	3/3	3/3
Ms. Chan Wai Kay Katherine	10/10	N/A	N/A	N/A	3/3
Mr. Wang Manquan *(Appointed on 29 December 2016)*	1/10	N/A	N/A	N/A	0/3
Mr. Zang Yiran	10/10	N/A	N/A	N/A	3/3
Mr. Daiqi *(Re-designated as executive Director on 29 December 2016)*	10/10	N/A	N/A	N/A	3/3
Non-executive Director					
Mr. Zhao Youmin	10/10	N/A	N/A	N/A	3/3
Independent non-executive Directors					
Mr. Jia Wenzeng	9/10	5/5	3/3	3/3	0/3
Mr. Wu Desheng	10/10	5/5	3/3	3/3	1/3
Mr. Wu Qiang *(Appointed on 29 December 2016)*	0/10	0/5	0/3	0/3	0/3
Mr. Guo Qingui *(Appointed on 29 December 2016)*	0/10	0/5	0/3	0/3	0/3
Mr. Zhang Honghai *(Resigned on 1 January 2017)*	10/10	5/5	3/3	3/3	3/3

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

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

Due to engagement in other business, Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, did not attend the annual general meeting held on 30 May 2016 and the two extraordinary general meetings held on 30 May 2016 and 26 September 2016 respectively. Mr. Wu Desheng, the independent non-executive Director, did not attend the annual general meeting and the extraordinary general meeting held on 30 May 2016.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Prior to 6 July 2016, Mr. Xu Shengheng acted as Joint Chairman of the Board and 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. On 6 July 2016, Mr. Xu Shengheng has resigned as chief executive officer of the Company and, on 13 July 2016, Mr. Wang Manquan was appointed as chief executive officer of the Company. Since then, the Company has complied with the code provision A.2.1 of the Code to have the roles and responsibility of chairman and chief executive officer separated.

NON-EXECUTIVE DIRECTORS

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

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

DIRECTORS' AND OFFICERS' LIABILITIES

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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 in-house seminar provided by the Company 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 four independent non-executive Directors, namely Mr. Wu Desheng (chairman of remuneration committee), Mr. Jia Wenzeng, Mr. Wu Qiang and Mr. Guo Qingui and two executive Directors, namely Mr. Liu Dajun and Mr. Xu Shengheng, both of them are the deputy chairman of remuneration committee. During the Reporting Period, three meetings were held by the remuneration committee. The remuneration Committee has reviewed and proposed the directors' salaries/fee paid to the appointed Directors, the remuneration package of the chief executive officer appointed and some senior staff of the subsidiaries and designed the incentive scheme for the management of the Company during the year. In consideration of the directors' remuneration, no director is involved in deciding his own remuneration.

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 four independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. During the Reporting Period, the nomination committee held three meetings to consider and recommend the appointment of Directors based on the board diversity policy of the Company, the composition of the Board and the background of the candidate, the appointment of chief executive officer of the Company and the structure, nomination and division of work for the management team of the Company.

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 2016 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 2016** *HK$'000*
Audit services	2,310
Non-audit services	11
Total fee paid/payable for the Reporting Period	2,320

AUDIT COMMITTEE

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

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

During the year, before submission of the reports to the Board, the audit committee reviewed the quarterly, interim and annual reports of the Company and the impact of the changes in accounting policies and practices and compliance of the relevant accounting standards, the GEM Listing Rules. The audit committee also made comments and recommendations on the financial reporting practice, the appointment of the external auditors, the annual audit work and assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management. During the Reporting Period, five meetings were held and also had meeting with auditors to discuss the audit matters before commencement of the audit work.

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

Ms. Wong Lai Yuk, the company secretary of the Group, is an associate member of The Hong Kong Institute of Chartered Secretaries in Hong Kong. Ms. Wong joined the Group in December 2001. During the Reporting Period, Ms. Wong (who is an employee of the Company) has duly complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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 and operation. During the year, a detailed strategic development plan of the Group was presented to the Board which included analysis of the risk to the market and industry in which the Company operated as well as analysis about the Company's own strengths and weaknesses for different perspectives covering operational and financial issues. Several board meetings were held to have thorough discussion on the report and directors had provided their opinions and recommendation. The Board also reviewed and modified the fund management policy and made suggestions to enhance the financial control. The Group also pay special attention on the work safety, training on work safety would be provided to workers and site inspection would be made regularly. Comprehensive policies and procedures were adopted by the Group as controlling process in the daily operations in order to better monitor and minimize the risks. The management of the Group believes that risk management and internal control systems were effective and adequate.

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.

Corporate Governance Report

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

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

Address:	Units 3709-10, 37/F, The Center, 99 Queen's Road Central, Central, Hong Kong
Fax:	852-37539833
E-mail:	info@cgsenergy.com.hk

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

CONSTITUTIONAL DOCUMENTS

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

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., 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)

OPINION

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 36 to 133, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Construction contracts

Refer to note 7 to the consolidated financial statements and the accounting policies on pages 53 and 54

The key audit matter	How the matter was addressed in our audit
There is a considerable judgement in assessing the appropriate contract revenue and margin to recognise. Revenue and margin are recognised on the stage of completion of individual contracts, calculated on the proportion of total costs at the reporting date compared to the estimated total costs of the contract. This involves the assessment of the valuation of the budgeted cost and claims, if any; the completeness and accuracy of forecast costs to complete. Significant judgement is involved in relation to the assessment of stage of completion and is therefore considered as a key audit matter.	We have tested revenue recognised under Hong Kong Accounting Standard ("HKAS") 11 Construction Contracts during the year to ensure the Group's accounting policy is in line with HKAS 11. We carried out site visits for a number of contracts in the year. We have assessed whether the stage of completion at the end of the reporting date was reasonable through critically challenged the forecast costs to complete, variations within contract revenue and contract costs, and the completeness and validity of provisions arising from customer disputes, if any. This assessment included agreeing contract valuation positions to third party certificates, reviewing contract terms and conditions, interviewing and challenging contract managers and the directors of the Company. We have also recalculated any profit recognised.

Recoverability of aged trade and retention receivables and amounts due from customers for contract work

Refer to notes 29 and 31 to the consolidated financial statements and the accounting policies on pages 54 and from 59 to 63

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group has trade receivables of approximately HK$204,937,000 before allowance for doubtful debts of approximately HK$59,646,000 and retention receivables of approximately HK$82,339,000. The trade receivables aged over one year are approximately HK$55,547,000, which represented a significant portion of total net trade receivables. We consider the impairment assessment of aged trade and retention receivables is a key audit matter due to the significance of amounts and the subjective nature of the calculation because the estimations on which these provision entail a significant degree of management judgement and may subject to management bias.	Our procedures were designed to review the management's impairment assessment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessing the management's impairment testing; and We have challenged the assumptions and critical judgement used by management in assessing the reliability of the management's past estimates and taking into account the calculation methodologies, economic factors, financial position of the debtors and cash received after year end, as well as the recent creditworthiness of each debtor.

KEY AUDIT MATTERS *(Continued)*

Recoverability of aged trade and retention receivables and amounts due from customers for contract work *(Continued)*

Refer to notes 29 and 31 to the consolidated financial statements and the accounting policies on pages 54 and from 59 to 63

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group has amounts due from customers for contract work of approximately HK$317,832,000. They are resulted from timing differences between progress billings and turnover recognised according to the construction progress. We consider the recoverability of amounts due from customers for contract work as a key audit matter due to the significance of amounts and the subjective nature of the calculation because the estimations on which these provision are entail a significant degree of management judgement and may subject to management bias.	Our procedures were designed to review the management's impairment of amounts due from customers of contract work and challenge the reasonableness of the methods and assumptions used to estimate the impairment amounts. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessing the management's impairment testing; and We have challenged the assumptions and critical judgement used by management in assessing the reliability of the management's past estimates and taking into account the creditworthiness of the customers, progress billings during the year, subsequent progress billings and cash received after the end of the reporting period, and available unbilled contract amounts at the end of the reporting period.

Valuation of leasehold land and buildings and investment properties

Refer to notes 16 and 17 to the consolidated financial statements and the accounting policies on pages 55, 57 and 58

The key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2016, the Group's leasehold land and buildings under property, plant and equipment and investment properties of approximately HK$253,983,000 and HK$513,383,000, respectively with a gain on revaluation of leasehold land and buildings of approximately HK$1,869,000 recognised in the consolidated statements of profit or loss and other comprehensive income and fair value gains on investment properties of approximately HK$23,256,000 recognised in the consolidated statement of profit or loss, respectively. All of the leasehold land and buildings and investment properties are measured at fair values which have been estimated by the management of the Company with reference to independent external valuations. We consider the valuation of leasehold land and buildings and investment properties as a key audit matter because the valuations are dependent on certain key assumptions that require significant management judgement including but not limited to market yield and fair market rents. The valuations of investment properties under development are also dependent upon the estimated costs to complete.	Our procedures in relation to management's valuation of leasehold land and buildings and investment properties included assessing the valuation methodologies used and the appropriateness of the key assumptions based on the public available facts and circumstances of the property market in the People's Republic of China. We had also checked, on a sample basis, the accuracy and relevance of the input data used.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Impairment of goodwill

Refer to note 20 to the consolidated financial statements and the accounting policies on page 52

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group has goodwill of approximately HK$465,760,000 which has been allocated to an individual cash generating unit, "shallow ground source energy" segment. The management has concluded that there is no impairment in respect of the goodwill. This conclusion was based on a value-in-use calculation, prepared by an independent external valuer, that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular the future revenue growth. The extent of judgement and extent of goodwill resulted in this matter being identified as a key audit matter.	In order to address this matter in our audit, we obtained management's assessment with reference to independent external valuation and challenged the reasonableness of the selection of valuation methodology, adoption of key assumptions and input data. In particular, we tested the future cash flow forecast on whether it is agreed to the budget approved by the Board of Directors and compared the budget with actual results available up to the report date. We also challenged the appropriateness of the assumptions, including the sales growth rates and gross margin, against the latest market expectations. We also challenged the discount rate employed in the calculation of value-in-use by reviewing its basis of calculation and comparing its input data to market sources. As any changes in these assumptions and input to valuation model may result in significant financial impact, we tested management's sensitivity analysis in relation to the key inputs to the impairment assessment, which included changes in the sales growth rate.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Hon Kei, Anthony.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	7	**619,053**	319,354
Cost of sales		**(508,454)**	(199,621)
Gross profit		**110,599**	119,733
Other income	9	**55,469**	96,995
Selling and distribution expenses		**(31,076)**	(28,931)
Administrative expenses		**(122,208)**	(121,798)
Fair value changes on investment properties		**23,256**	13,235
Other operating gains (expenses)		**5**	(946)
Impairment loss recognised in respect of trade receivables	29	**(9,003)**	(54,383)
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	**4,238**	1,260
Profit from operations		**31,280**	23,316
Share of results of associates	22	**483**	(382)
Share of result of a joint venture	23	**128**	798
Share-based payment expenses	45	**(5,309)**	(7,747)
Finance costs	10	**(36,106)**	(38,944)
Loss before tax		**(9,524)**	(22,959)
Income tax expense	11	**(22,105)**	(25,147)
Loss for the year	12	**(31,629)**	(48,106)
Loss for the year attributable to:			
Owners of the Company		**(30,816)**	(47,506)
Non-controlling interests		**(813)**	(600)
		(31,629)	(48,106)
Loss per share	15		
Basic (HK cents)		**(1.07)**	(1.64)
Diluted (HK cents)		**(1.07)**	(1.64)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(31,629)**	(48,106)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Gain (loss) on revaluation of leasehold land and buildings	**1,869**	(8,138)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translating foreign operations	**(59,318)**	(46,608)
Fair value (losses) gains on available-for-sale investments	**(1,092)**	138
Share of other comprehensive expense of a joint venture	**(728)**	–
Share of other comprehensive expense of associates	**(746)**	(90)
	(61,884)	(46,560)
Other comprehensive expense for the year	**(60,015)**	(54,698)
Total comprehensive expense for the year	**(91,644)**	(102,804)
Total comprehensive expense attributable to:		
Owners of the Company	**(88,029)**	(100,903)
Non-controlling interests	**(3,615)**	(1,901)
	(91,644)	(102,804)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-Current Assets			
Property, plant and equipment	16	**326,850**	335,183
Investment properties	17	**513,383**	373,770
Deposits paid for acquisition of land use rights	18	**119,965**	86,621
Goodwill	20	**465,760**	465,760
Intangible assets	21	**–**	–
Interests in associates	22	**36,579**	29,737
Interest in a joint venture	23	**6,766**	7,366
Available-for-sale investments	24	**98,289**	106,203
Prepayments	25	**8,371**	12,537
Deferred tax assets	26	**26,319**	26,890
		1,602,282	1,444,067
Current Assets			
Inventories	27	**60,925**	39,795
Properties held for sale under development	28	**88,546**	118,688
Deposit paid for acquisition of a subsidiary	19	**–**	77,685
Trade and retention receivables	29	**227,630**	226,336
Prepayments, deposits and other receivables	30	**152,859**	114,953
Amounts due from customers for contract work	31	**317,832**	297,086
Amounts due from non-controlling interests	36	**–**	1,850
Amounts due from associates	37	**6,474**	12,612
Amount due from a related company	36	**526**	1,224
Held-for-trading financial assets	32	**64**	59
Available-for-sale investments	24	**–**	102,625
Cash held at non-bank financial institutions	33	**3,812**	8,619
Bank balances and cash	33	**70,119**	136,199
		928,787	1,137,731
Current Liabilities			
Trade payables	34	**208,950**	182,368
Accrued liabilities, deposits received and other payables	35	**171,098**	173,969
Amounts due to customers for contract work	31	**12,207**	11,398
Amount due to a joint venture	37	**1,393**	–
Amount due to an non-controlling interest	36	**24,586**	–
Borrowings	40	**–**	477,326
Tax payable		**148,209**	139,030
		566,443	984,091
Net Current Assets		**362,344**	153,640
Total Assets less Current Liabilities		**1,964,626**	1,597,707

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-Current Liabilities			
Receipt in advance	38	**2,823**	5,615
Deferred income	39	**9,804**	8,091
Borrowings	40	**446,662**	–
Deferred tax liabilities	26	**64,035**	63,550
		523,324	77,256
Net Assets		**1,441,302**	1,520,451
Capital and Reserves			
Share capital	41	**223,990**	225,184
Reserves		**1,171,857**	1,250,844
Equity attributable to owners of the Company		**1,395,847**	1,476,028
Non-controlling interests		**45,455**	44,423
Total Equity		**1,441,302**	1,520,451

The consolidated financial statements on pages 36 to 133 were approved and authorised for issue by the board of directors on 29 March 2017 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 2016

	Attributable to owners of the Company													
	Share capital	Share premium	Statutory reserve	Treasury shares	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total	Non–controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note a)	*(Note b)*			*(Note c)*	*(Note d)*	*(Note e)*						
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 45)*	–	–	–	–	–	–	–	–	7,747	–	–	7,747	–	7,747
Lapse of share options *(Note 45)*	–	–	–	–	–	–	–	–	(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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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 2016	225,184	885,718	2,935	(3,293)	26,217	154,381	(1,694)	32,903	51,142	(1,430)	103,965	1,476,028	44,423	1,520,451
Loss for the year	–	–	–	–	–	–	–	–	–	–	(30,816)	(30,816)	(813)	(31,629)
Other comprehensive income (expense) for the year:														
– Gain on revaluation of leasehold land and buildings	–	–	–	–	1,869	–	–	–	–	–	–	1,869	–	1,869
– Fair value losses on available-for-sale investments	–	–	–	–	–	–	–	(1,092)	–	–	–	(1,092)	–	(1,092)
– Share of other comprehensive expense of a joint venture	–	–	–	–	–	–	–	–	–	(728)	–	(728)	–	(728)
– Share of other comprehensive expense of associates	–	–	–	–	–	–	–	–	–	(746)	–	(746)	–	(746)
– Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	–	(56,516)	–	(56,516)	(2,802)	(59,318)
Total other comprehensive income (expense) for the year	–	–	–	–	1,869	–	–	(1,092)	–	(57,990)	–	(57,213)	(2,802)	(60,015)
Total comprehensive income (expense) for the year	–	–	–	–	1,869	–	–	(1,092)	–	(57,990)	(30,816)	(88,029)	(3,615)	(91,644)
Repurchase of ordinary shares *(Note 41)*	(1,194)	(4,229)	–	3,293	–	–	–	–	–	–	–	(2,130)	–	(2,130)
Acquisition of additional interests of a subsidiary from non-controlling interests *(Note 43)*	–	–	–	–	–	–	4,669	–	–	–	–	4,669	(23,304)	(18,635)
Recognition of share-based payment expense *(Note 45)*	–	–	–	–	–	–	–	–	5,309	–	–	5,309	–	5,309
Contribution by non-controlling interests upon incorporation of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	6,065	6,065
Capital injection from non-controlling equity holders	–	–	–	–	–	–	–	–	–	–	–	–	21,886	21,886
Lapse of share options *(Note 45)*	–	–	–	–	–	–	–	–	(19,968)	–	19,968	–	–	–
At 31 December 2016	223,990	881,489	2,935	–	28,086	154,381	2,975	31,811	36,483	(59,420)	93,117	1,395,847	45,455	1,441,302

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

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

(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 subsidiaries from non-controlling interests.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 *HK$'000*	2015 *HK$'000*
OPERATING ACTIVITIES		
Loss before tax	**(9,524)**	(22,959)
Adjustments for:		
Impairment loss recognised in respect of trade receivables	**9,003**	54,383
Impairment loss recognised in respect of other receivables	**–**	1,849
Amortisation of deferred income on government grants	**–**	(407)
Change in fair value of held-for-trading financial assets	**(5)**	946
Depreciation of property, plant and equipment	**12,653**	15,215
Loss on uncertainty in respect of collectability of amounts due from customers for contract work	**42,471**	11,181
Finance costs	**36,106**	38,944
Bad debts recovery	**(1,300)**	(3,670)
Bank interest income	**(475)**	(505)
Reversal of impairment loss recognised in respect of trade receivables in prior years	**(4,238)**	(1,260)
Share-based payment expenses	**5,309**	7,747
Share of results of associates	**(483)**	382
Share of result of a joint venture	**(128)**	(798)
Fair value changes on investment properties	**(23,256)**	(13,235)
Gain on disposals of investment properties	**(23,271)**	–
Operating cash flows before movements in working capital	**42,862**	87,813
Increase in inventories	**(23,686)**	(8,506)
Increase in trade and retention receivables	**(64,128)**	(115,064)
(Increase) decrease in prepayments, deposits and other receivables	**(9,415)**	22,086
(Increase) decrease in amounts due from customers for contract work	**(97,777)**	18,956
Increase in amounts due from related companies	**(2,826)**	(529)
Increase in trade payables	**44,415**	52,272
Increase in accrued liabilities, deposits received and other payables	**15,917**	28,332
Increase in amount due to an non-controlling interest	**24,586**	–
Decrease in receipt in advance	**(2,431)**	(3,408)
Decrease in held-for-trading investments	**–**	2,867
Increase (decrease) in amounts due to customers for contract work	**1,541**	(361)
Cash (used in) generated from operations	**(70,942)**	84,458
PRC Enterprise Income Tax ("PRC EIT") paid	**(874)**	(1,876)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(71,816)**	82,582

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Deposit paid for acquisition a subsidiary	–	(77,685)
Deposits paid for acquisition of land use rights	**(41,487)**	(62,426)
Development costs paid for investment properties under construction or development	**(18,038)**	(49,399)
Incorporation of a joint venture	–	(6,568)
Incorporation of an associate	–	(5,847)
Advanced to non-controlling interests	–	(1,850)
Purchase of property, plant and equipment	**(25,213)**	(2,303)
Development costs paid for properties held for sale under development	–	(19,271)
Investments in associates	**(7,105)**	–
Acquisition on available-for-sale investments	–	(9,558)
Refund from available-for-sale investments	**100,324**	16,706
Deposits refunded for acquisition of land use rights	–	1,535
Repayment from associates	**5,544**	1,840
Repayment from non-controlling interests	**1,486**	–
Interest received	**475**	505
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**15,986**	(214,321)
FINANCING ACTIVITIES		
Repayment from borrowings	**(446,663)**	–
Interests paid	**(36,106)**	(38,944)
Repurchase of ordinary shares	**(2,130)**	(24,319)
Repayment to an associate	–	(11,888)
Proceeds from borrowings	**446,662**	–
Proceeds from exercise of share options	–	24,904
Government grants received	**2,233**	353
Contribution by non-controlling interests upon incorporation	**6,065**	5,392
Capital injection from non-controlling interests	**21,886**	–
Advanced from a joint venture	**1,393**	–
NET CASH USED IN FINANCING ACTIVITIES	**(6,660)**	(44,502)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(62,490)**	(176,241)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**144,818**	332,286
Effect of foreign exchange rate changes	**(8,397)**	(11,227)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by	**73,931**	144,818
Cash held at non-bank financial institution	**3,812**	8,619
Bank balances and cash	**70,119**	136,199
	73,931	144,818

1. GENERAL AND BASIS OF PREPARATION

China Ground Source Energy Industry Group Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group") was incorporated in the 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 50, 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)")

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 HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

New and revised HKFRSs issued but not yet effective

The Group has not early 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]
HKFRS 16	Leases[3]
Amendments to HKFRSs	Annual Improvement to HKFRSs 2014-2016 Cycle[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017.

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

3 Effective for annual periods beginning on or after 1 January 2019.

4 Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of 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 ("HKFRSs") *(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

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

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

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.

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.

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

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

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 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.

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 in 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising from a business combination is carried at cost 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 or a joint venture that included in the carrying amount of the investment is set out in investments in associates and a joint venture 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 discounts the 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.

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

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Foreign currencies

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Government grants

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

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

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes/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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially 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.

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. 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, amounts due from associates, related companies, and non-controlling interests, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity 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 when 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, 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 flows 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, and other receivables, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment loss on financial assets (Continued)

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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 a joint venture and an non-controlling interest, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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

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 recognised 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 cash-generating unit ("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.

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For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above) *(Continued)*

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.

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

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

Critical judgements in applying accounting policies *(Continued)*

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company 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 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 deferred taxes on changes in fair value of investment properties are recognised taking into account the Land Appreciation Tax ("LAT") and PRC EIT payable upon sales of the 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 control over Guangsha through the contractual arrangements.

The directors of the Company assessed whether or not the Group has control over Guangsha based on whether the Group has the practical ability to direct the relevant activities of Guangsha unilaterally. In making their judgement, the directors of the Company considered the Group's rights through the 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.

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. As at 31 December 2016, the carrying amounts of those buildings and investment properties are approximately of RMB148,310,000 (equivalent to approximately of HK$165,611,000) and RMB64,430,000 (equivalent to approximately of HK$71,946,000) respectively. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

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

As at 31 December 2016, the carrying values of properties held for sale under development are approximately HK$88,546,000 (2015: HK$118,688,000). No impairment loss of properties of held for sale under development were recognised for both years.

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 assets recognised in respect of allowance for doubtful debts are approximately HK$26,319,000 as at 31 December 2016 (2015: HK$26,890,000). The reliability of the deferred tax assets 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 2016, the carrying values of the investment properties are approximately HK$513,383,000 (2015: HK$373,770,000). 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.

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

Key sources of estimation uncertainty *(Continued)*

Construction contracts

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

During the year ended 31 December 2016, construction contracts income and loss on uncertainty arises about the collectability amounting to approximately HK$417,724,000 and HK$42,471,000 respectively (2015: HK$290,660,000 and HK$11,181,000 respectively) were recognised in the consolidated statement of profit or loss.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual 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, when there is indication that these assets may suffer an impairment loss. 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 2016, the carrying value of property, plant and equipment is approximately HK$326,850,000 (net of accumulated depreciation and impairment losses of approximately HK$49,184,000 (2015: carrying amount of approximately HK$335,183,000 (net of accumulated depreciation and impairment losses of approximately HK$39,307,000)).

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 2016, the carrying value of goodwill is approximately HK$465,760,000 (2015: HK$465,760,000). No impairment losses were recognised for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Key sources of estimation uncertainty *(Continued)*

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 2016, the carrying values of inventories were approximately HK$60,925,000 (2015: HK$39,795,000). No impairment losses were recognised for both years.

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 2016, the carrying amounts of trade and retention receivables were of approximately HK$227,630,000, net of allowance for doubtful debts of approximately HK$59,646,000 (2015: HK$226,336,000, net of allowance for doubtful debts of approximately HK$58,651,000), and deposits and other receivables are approximately HK$115,084,000, net of allowance for doubtful debts of approximately HK$4,658,000 (2015: HK$56,332,000, net of allowance for doubtful debts of approximately HK$4,955,000) respectively.

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 2016, the carrying values of interests in associates and interest in a joint venture were approximately HK$36,579,000 and HK$6,766,000 respectively (2015: HK$29,737,000 and HK$7,366,000). No accumulated impairment losses were recognised as at 31 December 2016 (2015: 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 2016, the carrying value of AFS investments stated at cost was approximately HK$34,003,000 (2015: HK$138,961,000). No accumulated impairment losses were recognised as at 31 December 2016 (2015: Nil).

For listed equity investments and fund which are stated at fair value, a significant or prolonged decline in fair value of the listed equity investments or fund below its cost is considered to be objective evidence of impairment. As at 31 December 2016, the carrying values of the listed equity investments and fund are approximately HK$7,038,000 and HK$57,248,000 (2015: HK$9,558,000 and HK$60,309,000), respectively. No accumulated impairment losses were recognised as at 31 December 2016 (2015: 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:

	2016	2015
	HK$'000	*HK$'000*
Total borrowings	**446,662**	477,326
Equity *(Note)*	**1,395,847**	1,476,028
Gearing ratio	**32%**	32%

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
FVPTL – held for trading	**64**	59
Loans and receivables (including cash and cash equivalents)	**423,645**	520,857
AFS investments	**98,289**	208,828
Financial liabilities		
Other financial liabilities at amortised cost	**827,466**	791,623

(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 and a related company, cash held at non-bank financial institutions, bank balances and cash, trade payables, accrued liabilities and other payables, amounts due to a joint venture and an non-controlling interest, 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$, which exposed to foreign exchange risk arising from the exposure of RMB against HK$.

Besides, certain bank balances and cash, and cash held at non-bank financial institutions are denominated in United States dollars ("US$") which is a currency other than the functional currency of the relevant group entities.

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 denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposit and other receivables				
– HK$	**1,464**	2,282	–	–
Bank balances and cash, and cash held at non-bank financial institutions				
– HK$	**24,867**	61,914	–	–
– US$	**5,970**	–	–	–
Accrued liabilities and other payables				
– HK$	–	–	**6,964**	4,845
Total exposure	**32,301**	64,196	**6,964**	4,845

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against HK$ and US$ respectively which represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding HK$ and US$ denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. A positive number below indicates an increase in loss (2015: an increase in loss) after tax for the year where RMB strengthen 5% (2015: 5%) against the HK$ and US$ and vice versa.

For a 5% (2015: 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.

	HK$		US$	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss	**(726)**	**(2,226)**	**(224)**	–

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits (see Note 33) and borrowings (see Note 40). The Group current does not have an interest rate hedging policy. However, management of the Group monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see Note 33). However, the exposure in bank balances is minimal to the Group as the bank balances are all short-term in nature, no sensitivity analysis has been prepared.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities and fund under AFS investments, and held-for-trading investments. The management manages this exposure by maintaining a portfolio of investments with different risks. 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 and fund have been 5% (2015:5%) higher/lower:

No sensitivity analysis has been prepared for the held-for-trading investments as the their fair value changes have immaterial effect to the loss for the years ended 31 December 2016 and 2015.

Capital reserve would increase/decrease by approximately HK$3,214,000 (2015: HK$3,015,000) for the Group as a result of the changes in fair value of the equity securities and fund.

Credit risk

As at 31 December 2016, 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% (2015: 100%) of the total trade and retention receivables as at 31 December 2016.

The Group has a concentration of credit risk as 15% and 35% (2015: 8% and 24%) of the total trade and retention receivables was due from the Group's largest and top five customers respectively as at 31 December 2016. These receivables are within the shallow ground source energy business segment.

With respect to credit risk arising from amounts due from associates, a related company 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 have 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.

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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 2016					
Non-derivative financial liabilities					
Trade payables	**208,950**	**–**	**–**	**208,950**	**208,950**
Accrued liabilities and other payables	**145,875**	**–**	**–**	**145,875**	**145,875**
Amount due to a joint venture	**1,393**	**–**	**–**	**1,393**	**1,393**
Amount due to an non-controlling interest	**24,586**	**–**	**–**	**24,586**	**24,586**
Borrowings	**31,266**	**31,266**	**478,100**	**540,632**	**446,662**
	412,070	**31,266**	**478,100**	**921,436**	**827,466**

	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

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 2016	Fair value as at 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed investment as classified as AFS investments *(Note 24)*	**Listed investments in information technology: HK$7,038,000**	Listed investments in information technology: HK$9,558,000	Level 1	Quoted bid prices in an active market, such as the National Equities Exchange and Quotations
Fund classified as AFS investments *(Note 24)*	**Fund investments in natural resources: HK$57,248,000**	Fund investments in natural resources: HK$60,309,000	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$64,000**	Listed securities in the Stock Exchange: – Infrastructure HK$59,000	Level 1	Quoted bid prices in an active market, such as the Main Board of the Stock Exchange

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

7. REVENUE

Revenue represents the amounts received and receivable for goods sold to customers, net of allowance for returns and trade discounts where applicable, and construction, installation and maintenance 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:

	2016	2015
	HK$'000	*HK$'000*
Sales and installation of shallow ground source energy utilisation system	**417,724**	290,660
Sales of air conditioning heat pump products	**172,518**	–
Maintenance services for shallow ground source energy utilisation system	**10,689**	8,160
Rental income *(Note (i))*	**18,122**	20,534
	619,053	319,354

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. REVENUE *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Gross rental income	**18,122**	20,534
Less: direct operating expenses from investment properties that generated rental income during the year	–	(1,080)
Net rental income	**18,122**	19,454

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

(c) Securities investment and trading segment – trading of securities and other types of investment; and

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

The air conditioning heat pump segment is a new business segment of the Group through expansion of business operation during the year.

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 2016

	Shallow ground source energy HK$'000	Air conditioning heat pump HK$'000	Securities investment and trading HK$'000	Properties investment and development HK$'000	Total HK$'000
REVENUE					
External sales	428,413	172,518	–	18,122	619,053
Segment results	35,175	1,621	4,481	64,649	105,926
Share of results of associates					483
Share of result of a joint venture					128
Unallocated other income					2,053
Unallocated expenses					(82,008)
Unallocated finance costs					(36,106)
Loss before tax					(9,524)

8. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2015

	Shallow ground source energy	Air conditioning heat pump	Securities investment and trading	Properties investment and development	Total
	HK$'000	*HK$'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)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results 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, certain administration costs, share-based payment expenses 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 (2015: Nil).

Segment assets and liabilities

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

Segment assets

	2016	2015
	HK$'000	*HK$'000*
Shallow ground source energy	**1,387,444**	1,377,736
Air conditioning heat pump	**60,441**	–
Securities investment and trading	**99,906**	288,908
Properties investment and development	**832,683**	690,657
Total segment assets	**2,380,474**	2,357,301
Unallocated corporate assets	**150,595**	224,497
Consolidated total assets	**2,531,069**	2,581,798

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Segment liabilities

	2016	2015
	HK$'000	*HK$'000*
Shallow ground source energy	**331,401**	331,427
Air conditioning heat pump	**42,352**	–
Securities investment and trading	**4,353**	3,429
Properties investment and development	**26,776**	46,585
Total segment liabilities	**404,882**	381,441
Unallocated corporate liabilities	**684,885**	679,906
Consolidated total liabilities	**1,089,767**	1,061,347

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 and a joint venture, deferred tax assets, amounts due from associates and a related company, cash held at non-bank financial institutions, bank balances and cash; and

- all liabilities are allocated to operating segments other than amounts due to an non-controlling interest and a joint venture, borrowings, deferred tax liabilities and tax payable.

8. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2016

	Shallow ground source energy *HK$'000*	Air conditioning heat pump *HK$'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)*	18,387	5,239	7,105	119,790	150,521
Impairment loss recognised of trade receivables	9,003	-	-	-	9,003
Fair value changes on held-for-trading financial assets	-	-	(5)	-	(5)
Reversal of impairment loss recognised in respect of trade receivables in prior years	(4,238)	-	-	-	(4,238)
Depreciation	11,373	595	-	685	12,653
Fair value changes on investment properties	-	-	-	(23,256)	(23,256)
Share-based payment expenses	5,309	-	-	-	5,309
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:					
Interests in associates	36,579	-	-	-	36,579
Interest in a joint venture	6,766	-	-	-	6,766
Share of results of associates	(483)	-	-	-	(483)
Share of result of a joint venture	(128)	-	-	-	(128)
Interest income	(409)	(66)	-	-	(475)
Interest expenses	36,106	-	-	-	36,106
Income tax expense (credit)	27,152	1,269	-	(6,316)	22,105

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2015

	Shallow ground source energy *HK$'000*	Air conditioning heat pump *HK$'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)*	2,303	–	12,415	111,825	126,543
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 payment expenses	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

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.

8. SEGMENT INFORMATION *(Continued)*

Information about major customers

Turnover from customers contributing over 10% of the total sales of the Group in both years are as follows:

	2016	2015
	HK$'000	*HK$'000*
Customer A	**135,527#**	N/A*

Sales are derived from the trading of air conditioning heat pump products.

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

9. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Bad debts recovery	**1,300**	3,670
Bank interest income	**475**	505
Compensation received	**–**	582
Dividend income from held-for-trading financial assets	**1**	86
Exchange gains	**811**	3,994
Gain on disposals of investment properties	**23,271**	–
Government grants *(Note a)*	**24,137**	71,836
Investment income on available-for-sale investments	**4,475**	15,411
Sale of scrap materials	**232**	444
Others	**767**	467
	55,469	96,995

Notes:

(a) Included in the amount of government grants recognised during the year ended 31 December 2016, approximately HK$24,137,000 (2015: HK$71,429,000) 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. No government grants previously received (2015: HK$407,000) (see Note 39) were recognised as deferred income utilised during the year.

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10. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on borrowings	**36,106**	38,944

11. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
PRC EIT	**18,984**	30,604
Deferred tax *(Note 26)*	**3,121**	(5,457)
	22,105	25,147

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 both years.

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

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

Pursuant to the income tax rules and regulations of the PRC, certain 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 2016 (2015: 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:

	2016 HK$'000	2015 HK$'000
Loss before tax	**(9,524)**	(22,959)
Tax at the domestic income tax rate	**853**	(2,465)
Tax effect of share of results of associates	**(121)**	96
Tax effect of share of result of a joint venture	**(32)**	(200)
Tax effect of expenses not deductible for tax purposes	**11,788**	13,587
Tax effect of tax losses not recognised	**17,187**	10,520
Tax effect of income not taxable for tax purposes	**(5,818)**	(599)
Income tax on concessionary rate	**(1,752)**	4,208
Tax expense for the year	**22,105**	25,147

12. LOSS FOR THE YEAR

	2016 HK$'000	2015 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(Note 13)*		
– Wages and salaries	**66,520**	57,355
– Retirement benefits scheme contributions *(Note 46)*	**10,588**	10,808
– Share-based payments *(Note 45)*	**5,309**	7,747
	82,417	75,910
Cost of inventories sold	**465,983**	188,440
Depreciation of property, plant and equipment	**12,653**	15,215
Auditor's remuneration	**2,382**	2,410
Minimum lease payments under operating leases in respect of land and buildings	**8,310**	8,949
Fair value change on held-for-trading financial assets	**(5)**	946
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	**42,471**	11,181
Research costs (included in administrative expenses)*	**11,199**	7,549

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

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For the year ended 31 December 2016

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

(a) The emoluments paid or payable to each of the 12 (2015: 10) directors were as follows:

For the year ended 31 December 2016

	Ms. Chan Wai Kay, Katherine	Mr. Liu Dajun	Mr. Wang Manquan# (Note 1)	Mr. Zang Yiran	Mr. Xu Shengheng*	Mr. Daiqi (Note 2)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
A) EXECUTIVE DIRECTORS:							
Fees	–	–	–	–	–	–	–
Other emoluments:							
Salaries, allowances and benefits in kind	1,920	2,016	543	1,200	2,016	–	7,695
Retirement benefits	18	–	8	–	18	–	44
Share-based payment expenses	1,372	–	1,372	–	1,372	–	4,116
Sub-total emoluments	3,310	2,016	1,923	1,200	3,406	–	11,855

	Mr. Zhao Youmin	Mr. Daiqi (Note 2)	Total
	HK$'000	*HK$'000*	*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. Wu Qiang (Note 1)	Mr. Jia Wenzeng	Mr. Zhang Honghai (Note 3)	Mr. Wu Desheng	Mr. Guo Qingui (Note 1)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:						
Fees	–	150	150	150	–	450
Other emoluments:						
Salaries, allowances and benefits in kind	–	–	–	–	–	–
Retirement benefits	–	–	–	–	–	–
Share-based payment expenses	–	175	–	175	–	350
Sub-total emoluments	–	325	150	325	–	800
Total emoluments						13,435

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

(a) The emoluments paid or payable to each of the 12 (2015: 10) directors were as follows: *(Continued)*

For the year ended 31 December 2015

	Ms. Chan Wai Kay, Katherine *HK$'000*	Mr. Liu Dajun *(Note 4)* *HK$'000*	Mr. Zheng Qiyu *(Note 5)* *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

	Mr. Jia Wenzeng *HK$'000*	Mr. Zhang Honghai *HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

(a) The emoluments paid or payable to each of the 12 (2015: 10) directors were as follows: *(Continued)*

Notes:

(1) Appointed on 29 December 2016

(2) Re-designated from non-executive director to executive director on 29 December 2016

(3) Resigned on 1 January 2017

(4) Appointed on 12 May 2015

(5) Resigned on 12 May 2015

(6) 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 2016 and 2015.

(7) 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 2016 and 2015.

* Mr. Xu Shengheng was resigned as the chief executive of the Company with effect from 6 July 2016 and his emoluments disclosed above include those for services rendered by him as the chief executive.

Mr. Wang Manquan was appointed as the chief executive of the Company with effect from 13 July 2016 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 (2015: 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 (2015: one) individuals were as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries and other benefits	**1,200**	1,314
Retirement benefits scheme contributions	**–**	14
Share-based payment expenses	**499**	–
	1,699	1,328

Their emoluments were with the following bands:

	Number of employees	
	2016	2015
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
	1	1

During the years ended 31 December 2016 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 years ended 31 December 2016 and 2015, no final dividend in respect of the years ended 31 December 2015 and 2014, respectively, were 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 2016 has been proposed by the directors of the Company.

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:

	2016	2015
	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	**(30,816)**	(47,506)

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue	**2,876,500**	2,898,614

Note:

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price for shares for the years ended 31 December 2016 and 2015.

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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 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 and at 1 January 2016	264,904	4,051	84,288	3,063	5,918	9,613	2,653	374,490
Exchange realignment	(16,963)	(193)	(5,407)	(143)	(356)	(424)	(170)	(23,656)
Additions	4,468	–	10,345	26	7,334	–	1,453	23,626
Transfer	–	–	1,519	–	–	–	(1,519)	–
Revaluation	1,574	–	–	–	–	–	–	1,574
At 31 December 2016	253,983	3,858	90,745	2,946	12,896	9,189	2,417	376,034

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 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 and 1 January 2016	–	2,056	21,618	2,775	5,194	7,664	–	39,307
Exchange realignment	–	(86)	(1,679)	(133)	(344)	(239)	–	(2,481)
Provided for the year	295	383	10,234	182	1,417	142	–	12,653
Eliminated on revaluation	(295)	–	–	–	–	–	–	(295)
At 31 December 2016	–	2,353	30,173	2,824	6,267	7,567	–	49,184
CARRYING VALUES								
At 31 December 2016	253,983	1,505	60,572	122	6,629	1,622	2,417	326,850
At 31 December 2015	264,904	1,995	62,670	288	724	1,949	2,653	335,183

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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For the year ended 31 December 2016

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$250,200,000 (2015: HK$262,904,000).

As at 31 December 2016, the Group is in the process of obtaining the ownership certificates for certain buildings at a carrying amount of approximately HK$165,611,000 (2015: HK$173,926,000). 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 2016 and 2015 by Peak Vision Appraisals Limited ("Peak Vision"), an independent valuer not connected to the Group. Peak Vision is a member of the Institute of Valuers.

The fair value of a club house in Dalian, the PRC, was approximately HK$80,556,000 (2015: HK$82,386,000). 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 (the "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.

The fair values of office buildings in Dalian, the PRC, of approximately HK$7,816,000 (2015: HK$8,592,000) 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 buildings under review.

The fair values of office buildings in Beijing of approximately HK$165,611,000 (2015: HK$173,926,000) 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 leasing 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.

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

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 Peak Vision 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.

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 2016**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Office buildings and a club house in Dalian, the PRC:				
– buildings	**–**	**88,372**	**–**	**88,372**
Office buildings in Beijing, the PRC:				
– buildings	**–**	**–**	**165,611**	**165,611**

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

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 2016				
Office buildings in Beijing, the PRC HK$165,611,000	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 RMB4.81 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 5.75%	The increase in the market yield would result in a decrease in fair value.
Office buildings in Dalian, the PRC HK$7,816,000	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
A club house in Dalian, the PRC HK$80,556,000	Level 2	DRC approach based on an estimate of the market value for the existing use of the land	N/A	N/A
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$8,592,000	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
A club house in Dalian, the PRC HK$82,386,000	Level 2	DRC approach based on an estimate of the market value for the existing use of the land	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 2015	191,606
Exchange realignment	(8,285)
Revaluation	(9,395)
At 31 December 2015 and 1 January 2016	173,926
Exchange realignment	(11,173)
Revaluation	2,858
At 31 December 2016	165,611

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 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 and 1 January 2016	252,599	121,171	373,770
Exchange realignment	(15,243)	(7,805)	(23,048)
Development costs paid	18,038	–	18,038
Additions	58,849	–	58,849
Additions through acquisition of a subsidiary *(Note 42)*	77,869	–	77,869
Disposals	–	(41,863)	(41,863)
Transfer from deposits paid for acquisition of land use rights *(Note 18)*	2,579	–	2,579
Transfer from properties held for sale under development *(Note 28)*	22,517	–	22,517
Fair value gains recognised in the consolidated statement of profit or loss	24,229	443	24,672
At 31 December 2016	441,437	71,946	513,383

The above investment properties are situated in the PRC.

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17. INVESTMENT PROPERTIES *(Continued)*

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

As at 31 December 2016, the Group is in the process of obtaining the ownership certificates for certain investment properties at a carrying amount of approximately RMB64,430,000 (equivalent to HK$71,946,000) (2015: RMB101,540,000 (equivalent to HK$121,170,000)). 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 2016 and 2015 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 leasing 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, the 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 the 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 expected to complete the development to reflect the quality of the completed development.

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.

The fair values of industrial and ancillary properties in Mianyang and Hangzhou, the PRC, are determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the investment properties under review.

There has been no change to the valuation technique 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 follows:

	Level 1	**Level 2**	**Level 3**	**Fair value as at 31 December 2016**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Industrial and ancillary property units located in Beijing, the PRC	–	–	**71,946**	**71,946**
Industrial and ancillary property units located in Xinyi, the PRC	–	**9,022**	–	**9,022**
Industrial and ancillary property units located in Pizhou, the PRC	–	**73,632**	–	**73,632**
Industrial and ancillary property units located in Mianyang, the PRC	–	**58,849**	–	**58,849**
Industrial and ancillary property units located in Hangzhou, the PRC	–	**123,614**	–	**123,614**
Commercial property units located in Dalian, the PRC	–	–	**25,906**	**25,906**
Residential property units located in Dalian, the PRC	–	–	**150,414**	**150,414**
Total	–	**265,117**	**248,266**	**513,383**

	Level 1	Level 2	Level 3	Fair value as at 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
Total	–	64,775	308,995	373,770

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 value 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 2016				
Industrial and ancillary properties in Beijing, the PRC HK$71,946,000	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 RMB3.33 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 7.75%	The increase in the market yield would result in a decrease in fair value.
Industrial and ancillary properties in Xinyi, the PRC HK$9,022,000	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$73,632,000	Level 2	DRC approach based on an estimate of the market value for the existing use of the land	N/A	N/A

17. INVESTMENT PROPERTIES *(Continued)*

Carrying value 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 2016 *(Continued)*				
Residential properties in Dalian, the PRC HK$150,414,000	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 RMB5,800 sq. m.	The increase in the market unit sales rate would result in an increase in fair value.
			Estimated cost to completion is RMB2,180 per sq. m.	The increase in the estimated cost to completion would result in a decrease in fair value.
Commercial properties in Dalian, the PRC HK$25,906,000	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 RMB5,800 sq. m.	The increase in the market unit sales rate would result in an increase in fair value.
			Estimated cost to completion from RMB1,120 per sq. m. to RMB2,230 per sq. m.	The increase in estimated cost to completion would result in decrease in fair value.
Industrial and ancillary properties in Mianyang, the PRC HK$58,849,000	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 Hangzhou, the PRC HK$123,614,000	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

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17. INVESTMENT PROPERTIES *(Continued)*

Carrying value 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 a 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	DRC 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.	The increase in the market unit sales rate would result in an increase in fair value.
			Estimated cost to completion is RMB2,200 per sq. m.	The increase in the estimated cost to completion would result in a decrease in fair value.

17. INVESTMENT PROPERTIES *(Continued)*

Carrying value 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.	The increase in the market unit sales rate would result in an increase in fair value.
			Estimated cost to completion from RMB1,120 per sq. m. to RMB2,230 per sq. m.	The increase in the estimated cost to completion would result in a decrease in fair value.
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

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 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 and 1 January 2016	105,775	174,104	29,116	308,995
Exchange realignment	(6,209)	(10,133)	(1,802)	(18,144)
Development costs paid	–	11,009	182	11,191
Disposals	(28,063)	–	–	(28,063)
Fair value changes on investment properties	443	(24,566)	(1,590)	(25,713)
At 31 December 2016	71,946	150,414	25,906	248,266

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18. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

	2016	2015
	HK$'000	*HK$'000*
As at 1 January	**86,621**	56,110
Additions	**41,487**	62,426
Obtained land certificates *(Note 17)*	**(2,579)**	(28,789)
Refunded the deposits	–	(1,535)
Exchange realignment	**(5,564)**	(1,591)
At 31 December	**119,965**	86,621

In 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$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 approximately 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, a deposit of RMB12,653,000 (equivalent to approximately 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$6,793,000) 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.

During the year ended 31 December 2016, a deposit of RMB23,833,000 (equivalent to HK$26,613,000) has been paid for to acquire 169,164 sq. m. of land situated at Xinyi, the PRC. During the year ended 31 December 2016, the land certificate has been obtained and the amount had been transferred into investment properties as land cost of RMB2,310,000 (equivalent to HK$2,579,000). Up to approval date of the consolidated financial statements, the Group is in the process to obtain the land certificate.

As at 31 December 2016, the Group paid land deposit of approximately RMB7,700,000 (equivalent to approximately HK$8,598,000) to acquire pieces of land situated in Nanyang (南陽高新區), the PRC. Up to approval date of the consolidated financial statements, the Group is in the process to obtain the land certificate.

As at 31 December 2016, the Group paid land deposit of approximately RMB5,620,000 (equivalent to approximately HK$6,276,000) to acquire pieces of land situated in Handan, the PRC. Up to approval date of the consolidated financial statements, the Group is in the process to obtain the land certificate.

19. DEPOSITS PAID FOR ACQUISITION OF A SUBSIDIARY

In 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 a shareholder of 香港嘉德威, 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 would be satisfied by cash.

In 2015, the Group had paid deposit of RMB65,100,000 (equivalent to approximately HK$77,685,000). The deposit would be fully refunded if the acquisition was not success.

In 2016, HYY Hangzhou entered into a supplementary agreement with 香港嘉德威 and Mr. Chen Zaixian to adjust the consideration to RMB65,100,000 (equivalent to HK$77,685,000). The acquisition of Hangzhou Goodway was completed on 21 December 2016.

20. GOODWILL

	HK$'000
COST AND CARRYING VALUES	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	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 an 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 pre-tax discount rate of 16.04% (2015: 17.08%) per annum. The cash flows beyond the three-year period were extrapolated using a steady growth rate of 3% (2015: 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.

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21. INTANGIBLE ASSETS

	Technical know-how *HK$'000*
COST	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	6,205
AMORTISATION	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	6,205
CARRYING VALUES	
At 31 December 2015 and 2016	–

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

	2016 **HK$'000**	2015 *HK$'000*
Cost of unlisted investments in associates	**47,518**	40,413
Share of post-acquisition results and other comprehensive income, net of dividend received	**(10,939)**	(10,676)
	36,579	29,737

Details of the associates at the end of the reporting period are as follows:

Name of company	Form of entity	Place of incorporation and operation	Registered capital	Proportion of ownership interest and proportion of voting rights held by the Group 2016	2015	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 and shallow ground source energy system
宏源地能熱泵科技有限公司 ("宏源熱泵") *(Note a)*	Limited liability company	The PRC	RMB50,000,000	**49%**	49%	Trading of the shallow ground source energy system
北京數碼恒有源科技有限公司 ("北京數碼") *(Note b)*	Limited liability company	The PRC	RMB2,430,000	**49%**	N/A	Computer system service and software development

22. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) During the year ended 31 December 2016, the Group paid capital of RMB4,900,000 (equivalent to approximately HK$5,717,000).

(b) 北京數碼 was newly incorporated on 15 August 2016. The Group paid capital of RMB1,190,000 (equivalent to approximately HK$1,388,000), during the year ended 31 December 2016.

* English name is for identification purpose only.

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 associate of the Group for the year ended 31 December 2016. 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.

BEHP	**2016**	2015
	HK$'000	*HK$'000*
Non-current assets	**7,026**	4,012
Current assets	**73,752**	67,423
Current liabilities	**(26,467)**	(23,054)
Non-current liabilities	**(670)**	–

	2016	2015
	HK$'000	*HK$'000*
Revenue	**46,765**	43,028
Profit for the year	**180**	46
Other comprehensive income for the year	**64**	184
Total comprehensive income for the year	**244**	230
Dividend received from BEHP during the year	**–**	–

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22. INTERESTS IN ASSOCIATES *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Net assets of BEHP	53,641	48,381
Proportion of the Group's ownership interest in BEHP	49%	49%
Goodwill	482	482
Carrying amount of the Group's interest in BEHP	26,766	24,189

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:

	2016	2015
	HK$'000	*HK$'000*
The Groups' shares of results	395	(405)
The Groups' shares of other comprehensive expense	(777)	(180)
Aggregate carrying amount of the Group's interest in an immaterial associate	9,813	5,548

23. INTEREST IN A JOINT VENTURE

	2016	2015
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture	6,568	6,568
Share of post-acquisition results and other comprehensive income	198	798
	6,766	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 capital	Proportion of ownership interests and voting right held by the Group		Principal activity
				2016	2015	
浙江萬合能源環境科技有限公司	Limited liability company	The PRC	RMB12,779,000	47.39%	47.39%	Exploration and development of energy resources

The joint venture is accounted for using the equity method in these consolidated financial statements. In the opinion of the directors of the Company, the joint venture is not individually material to the Group for the year ended 31 December 2016.

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

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

	2016	2015
	HK$'000	*HK$'000*
The Group's share of result	**128**	798
The Group's share of other comprehensive expense	**(728)**	–
Aggregate carrying amount of the Group's interest in an immaterial joint venture	**6,766**	7,366

24. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	HK$'000	*HK$'000*
Unlisted investments in the PRC		
Equity securities, at cost *(Note a)*	**34,003**	36,336
Limited partnership, at cost *(Note b)*	**–**	102,625
	34,003	138,961
Listed investments in the PRC		
Equity securities, at fair value *(Note c)*	**7,038**	9,558
Fund, at fair value (Note d)	**57,248**	60,309
	98,289	208,828
Analysed for reporting purposes as:		
Current assets	**–**	102,625
Non-current assets	**98,289**	106,203
	98,289	208,828

Notes:

(a) Included in the amount, RMB30,000,000 (equivalent to approximately HK$33,500,000) (2015: RMB30,000,000 (equivalent to approximately HK$35,799,000)) 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.

(b) In 2014, the Group paid an investment of RMB100,000,000 (equivalent to approximately HK$111,666,000) (2015: HK$124,930,000) in 上海展天投資管理中心(有限合夥) ("上海展天"), by way of a subscription for a limited partnership interest in 上海展天. During the year ended 31 December 2016, the Group has withdrew the investment cost of RMB86,000,000 (equivalent to approximately HK$100,324,000) (2015: RMB14,000,000 (equivalent to approximately HK$16,706,000) from 上海展天.

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

Notes: (Continued)

(c) In 2015, the Group has purchased listed 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). During the year ended 31 December 2016, a fair value loss of approximately RMB1,706,000 (equivalent to approximately HK$1,905,000) (2015: Nil) was recognised. 海鑫科金 is a company incorporated in PRC and is engaged in software and information technology services.

(d) The Group subscribed 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$55,832,000; 2015: HK$59,666,000) with accumulated fair value gains of approximately RMB1,268,000 (equivalent to HK$1,416,000) (2015: RMB540,000 (equivalent to approximately HK$643,000). Fair value gains recognised in 2016 is approximately RMB728,000 (equivalent to approximately HK$813,000) (2015: RMB116,000 (equivalent to approximately HK$138,000)).

(e) 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 landlord 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 RMB7,496,000 (approximately equivalent to HK$8,371,000) (2015: RMB10,506,000, approximately equivalent to HK$12,537,000) is included under non-current assets. The prepayments due within one year of RMB3,009,000 (approximately equivalent to HK$3,360,000) (2015: RMB2,916,000, approximately equivalent to HK$3,480,000) as at 31 December 2016 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 *HK$'000*	Revaluation of investment properties *HK$'000*	Total *HK$'000*
At 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 and 1 January 2016	26,890	(63,550)	(36,660)
Exchange realignment	(1,728)	3,793	2,065
Credited (charged) to profit or loss for the year *(Note 11)*	1,157	(4,278)	(3,121)
At 31 December 2016	26,319	(64,035)	(37,716)

26. DEFERRED TAX *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Deferred tax assets	**26,319**	26,890
Deferred tax liabilities	**(64,035)**	(63,550)
	(37,716)	(36,660)

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 retained earnings of the PRC subsidiaries amounting to approximately RMB292,931,000 (2015: RMB281,363,000) 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 2016, the Group had unused tax losses of approximately HK$260,878,000 (2015: HK$208,462,000), 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$68,089,000 (2015: HK$72,925,000) as at 31 December 2016 that will expire in five years from the dates they were incurred. Other losses may be carried forward indefinitely.

27. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
Raw materials	**15,335**	31,217
Finished goods	**45,590**	8,578
	60,925	39,795

28. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	HK$'000
At 1 January 2015	104,729
Exchange realignment	(5,312)
Additions	19,271
At 31 December 2015 and 1 January 2016	118,688
Exchange realignment	(7,625)
Transfer to investment properties *(Note 17)*	(22,517)
At 31 December 2016	88,546

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

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29. TRADE AND RETENTION RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**204,937**	215,331
Less: allowance for doubtful debts	**(59,646)**	(58,651)
	145,291	156,680
Retention receivables	**82,339**	69,656
	227,630	226,336

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.

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**67,210**	48,485
91 to 180 days	**4,301**	52,347
181 to 365 days	**18,233**	11,140
Over 365 days	**55,547**	44,708
	145,291	156,680

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK$78,081,000 (2015: HK$106,328,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

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

	2016	2015
	HK$'000	*HK$'000*
Within 365 days	**22,534**	61,620
Over 365 days	**55,547**	44,708
	78,081	106,328

The Group's neither past due nor impaired trade receivables of approximately HK$67,210,000 (2015: HK$50,352,000) mainly represented sales made to creditworthy customers for whom there was no recent history of default.

29. TRADE AND RETENTION RECEIVABLES *(Continued)*

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:

	2016 HK$'000	2015 HK$'000
At 1 January	**58,651**	6,301
Exchange realignment	**(3,770)**	(773)
Impairment losses recognised	**9,003**	54,383
Impairment losses reversed	**(4,238)**	(1,260)
At 31 December	**59,646**	58,651

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$59,646,000 (2015: HK$58,651,000) which have been placed in severe financial difficulties.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayments	**34,415**	55,141
Rental prepayments – current portion *(Note 25)*	**3,360**	3,480
Deposits	**23,736**	18,987
Other receivables	**96,006**	42,300
Less: allowance for doubtful debts	**(4,658)**	(4,955)
	152,859	114,953

The Group did not hold any collateral over these balances.

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:

	2016 HK$'000	2015 HK$'000
At 1 January	**4,955**	3,299
Exchange realignment	**(297)**	(193)
Impairment losses recognised	**–**	1,849
At 31 December	**4,658**	4,955

Included in the allowance for doubtful debts are individually impaired deposit and other receivables with an aggregate balance of approximately HK$4,658,000 (2015: HK$4,955,000) which have been placed in severe financial difficulties.

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

	2016	2015
	HK$'000	*HK$'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**543,923**	499,772
Less: progress billings	**(238,298)**	(214,084)
	305,625	285,688
Analysed for reporting purposes as:		
Gross amounts due from customers for contract work	**317,832**	297,086
Gross amounts due to customers for contract work	**(12,207)**	(11,398)
	305,625	285,688

As at 31 December 2016, retentions held by customers for contract works amounted to approximately HK$16,300,000 (2015: HK$3,286,000). There were no advances received from customers for contract works included in deposits received (2015: HK$2,231,000). 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 2016, expense in respect of the uncertainty arises about the collectability of the balances amounting to approximately HK$42,471,000 (2015: HK$11,181,000). These amounts are long outstanding and not expected to be fully recoverable. Based on past experience, the directors of the Company are of the opinion that no provision for the remaining balances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

32. HELD-FOR-TRADING FINANCIAL ASSETS

	2016	2015
	HK$'000	*HK$'000*
Listed securities		
Equity securities listed in Hong Kong	**64**	59

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

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

As at 31 December 2016, cash held at non-bank financial institutions carried interest at 0.01% (2015: 0.01%) per annum.

Bank balances and cash carried prevailing market deposit rates from 0.001% to 0.4% (2015: 0.0001% to 0.35%) per annum.

During the year ended 31 December 2015, short-term bank deposits with maturity less than 3 months carried prevailing market deposit rates from 0.15% to 2.35% 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.

	2016	2015
	HK$'000	*HK$'000*
Within 90 days	**82,432**	38,658
91 to 180 days	**13,863**	17,517
181 to 365 days	**15,745**	36,412
Over 365 days	**96,910**	89,781
	208,950	182,368

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

	2016	2015
	HK$'000	*HK$'000*
Accrued liabilities	**80,828**	107,743
Deposits received	**22,325**	38,633
Receipt in advance – current portion *(Note 38)*	**2,898**	3,407
Other payables	**65,047**	24,186
	171,098	173,969

36. AMOUNT DUE FROM (TO) A RELATED COMPANY/AN NON-CONTROLLING INTEREST

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

37. AMOUNT(S) DUE FROM (TO) ASSOCIATES AND A JOINT VENTURE

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

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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 approximately RMB2,528,000 (equivalent to approximately HK$2,823,000) (2015: RMB4,705,000; equivalent to HK$5,615,000) included under non-current liabilities represents rental receipt in advance for the lease payments due after one year. Balance of receipt in advance due within one year of RMB2,595,000 (equivalent to approximately HK$2,898,000) (2015: RMB2,855,000; equivalent to approximately HK$3,407,000) as at 31 December 2016 has been included in receipt in advance under current liabilities (see Note 35).

39. DEFERRED INCOME

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**8,091**	8,525
Exchange realignment	**(520)**	(380)
Government grants received	**2,233**	353
Amortisation of deferred income on government grants	**–**	(407)
At 31 December	**9,804**	8,091

As at 31 December 2016, government grants of approximately HK$9,804,000 (2015: HK$8,091,000) were designated for certain research projects. The amount is stated as non-current liabilities as at 31 December 2016 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 2016.

40. BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Unsecured loan		
– repayable within one year	**–**	477,326
– repayable not within one year	**446,662**	–
	446,662	477,326

In prior years, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$477,326,000)) 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 born interest at 1 to 3 years benchmark lending interest rate of the Peoples' Bank of China and was fully repaid in 2016 according to the entrusted loan agreement. The proceeds were used to finance the working capital of the Group.

In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$446,662,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement. The proceeds were used to finance the working capital of the Group.

The effective interest rate during the year ended 31 December 2016 is 7% (2015: 7.75%).

41. SHARE CAPITAL

	Number of shares of US$0.01 each		Share capital		Share capital	
	2016	2015	**2016**	2015	**2016**	2015
	'000	*'000*	***US$'000***	*US$'000*	***HK$'000***	*HK$'000*
Ordinary shares						
Issued and fully paid:						
At 1 January	**2,891,687**	2,904,327	**28,916**	29,043	**225,184**	226,170
Issue of shares under the Company's share option scheme *(note a)*	**–**	55,608	**–**	556	**–**	4,337
Shares repurchased and cancelled during the year *(note b)*	**(5,968)**	(59,688)	**(60)**	(597)	**(468)**	(4,656)
Shares repurchased in previous year and cancelled during the year *(note c)*	**(9,344)**	(8,560)	**(93)**	(86)	**(726)**	(667)
At 31 December	**2,876,375**	2,891,687	**28,763**	28,916	**223,990**	225,184

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 credited to the share premium.

b) During the year ended 31 December 2016, the issued and fully paid shares of 5,968,000 ordinary shares were repurchased and cancelled prior to the end of the reporting period with the highest price of HK$0.36 and the lowest price of HK$0.34.

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.

c) 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 in 2016 with the highest price of HK$0.36 and the lowest price of HK$0.33.

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.

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41. SHARE CAPITAL *(Continued)*

During the years ended 31 December 2016 and 2015, the Company repurchased its own shares through the Stock Exchange 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	0.335	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
Total				24,109
Nov 2015	3,896	0.360	0.330	1,358
Dec 2015	5,448	0.360	0.345	1,935
Jan 2016	5,968	0.360	0.340	2,130
Total				5,423

42. ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSETS ACQUISITION

As detailed in note 19, the Group acquired 100% equity interest of Hangzhou Goodway from an independent third party for a cash consideration of RMB65,100,000 (equivalent to approximately HK$77,685,000) which was paid in cash and satisfied by cash deposit paid in prior year (see Note 19). The directors of the Company are of the opinion that the acquisition of Hangzhou Goodway is in substance an asset acquisition instead of a business combination, as the net assets of Hangzhou Goodway was mainly industrial and ancillary office buildings and pieces of vacant land and Hangzhou Goodway was inactive prior to the acquisition by the Group.

Net assets of Hangzhou Goodway acquired:

	HK$'000
Investment properties *(Note 17)*	77,869
Other payables	(184)
	77,685
Satisfied by:	
Cash consideration	77,685

43. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

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 of 恒有源科技發展集團有限公司 ("HYY") at the consideration of RMB15,750,000 (equivalent to approximately HK$18,635,000). Afterwards, HYY is a wholly-owned subsidiary of the Company.

The difference between the fair value of consideration paid by 北控恒有源 and the share of net assets in HYY of approximately RMB3,946,000 (equivalent to approximately HK$4,669,000) is recognised by the Group as equity transaction reserve.

44. COMMITTMENTS

(i) Operating lease

The Group as lessor

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

	2016	2015
	HK$'000	*HK$'000*
Within one year	**10,642**	12,040
In the second to fifth years, inclusive	**45,021**	55,870
Over five years	**155,653**	190,043
	211,316	257,953

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:

	2016	2015
	HK$'000	*HK$'000*
Within one year	**3,640**	3,890
In the second to fifth years, inclusive	**2,338**	5,059
Over five years	**946**	1,126
	6,924	10,075

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 (2015: one to twelve years). No provision for contingent rent was established in the leases.

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44. COMMITTMENTS *(Continued)*

(ii) Others

	2016	2015
	HK$'000	*HK$'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– Investment properties under construction	**61,302**	24,185
– Acquisition of available-for-sale investment	**223**	239
– Injection of capital into an associate	**20,881**	23,389
	82,406	47,813

45. 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.

45. 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$0.426
		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$0.426
		6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	
Grant 3	11 August 2014	N/A*	11 August 2014 to 10 August 2016	HK$0.455
		11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	
Grant 4	8 December 2016	N/A*	8 December 2016 to 31 December 2020	HK$0.300
		8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	
		8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	

* The share options were vested immediately.

Note: The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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45. 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 of the Company) during the year:

Year ended 31 December 2016

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

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

Share Option Plan 2010 *(Continued)*

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

Share Option Plan 2010 *(Continued)*

For the share options granted on 8 December 2016, the fair value was calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

	8 December 2016
Share price on the date of grant	0.226
Exercise price	0.300
Expected volatility	45.57%
Risk-free rate	1.128%
Expected dividend yield	0%

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

The Group recognised the total expense of approximately HK$5,309,000 for the year ended 31 December 2016 (2015: HK$7,747,000) in relation to share options granted by the Company.

46. 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$10,588,000 (2015: HK$10,808,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

47. RELATED PARTY TRANSACTIONS

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

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

	2016	2015
	HK$'000	*HK$'000*
Sales to related companies* *(Note 1)*	**(1,507)**	(2,864)
Purchase from associates *(Note 2)*	**31,338**	21,868
Deposit cash in a related company* *(Note 3)*	**5**	–
Rental income from an associate *(Note 4)*	**(210)**	–
Sales to an associate *(Note 5)*	**(18,748)**	–

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 2016 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 which is a fellow subsidiary of China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited ("CECEP"), the substantial shareholder of the Company.

Note 2:

The Group purchased goods from associates, BEHP and 宏源熱泵.

Note 3:

The Group has entered into an financial service agreement with 中節能財務有限公司, is a fellow subsidiary of CECEP, the substantial shareholder of the Company during the year.

Note 4:

The Group charged rental income to an associate, BEHP.

Note 5

The Group sold goods to an associate, 宏源熱泵.

(c) Included in trade and retention receivables as at 31 December 2015, there was a balance amounted to approximately HK$551,000 (2016: Nil) with a related company, 中節能（蘇州）環保科技產業園有限公司 ("中節能（蘇州）"). The balance was in trade nature which was unsecured, interest-free and with credit period of 180 days. 中節能（蘇州） is a fellow subsidiary of CECEP, the substantial shareholder of the Company.

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47. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel

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

	2016	2015
	HK$'000	*HK$'000*
Short-term benefits	**10,767**	8,481
Retirement benefits scheme contributions	**52**	50
Share-based payment expenses	**4,965**	933
	15,784	9,464

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

48. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2016, the consideration of RMB15,750,000 (equivalent to approximately HK$18,635,000) for acquiring 5.387% equity interest of HYY was settled through the consideration of disposing investment properties of approximately RMB45,080,000 (equivalent to approximately HK$50,999,000), the remaining balance of the investment properties over the consideration for acquiring the additional interests in HYY amounting RMB29,330,000 (equivalent to approximately HK$32,364,000) was recognised under other receivables and would be settled by 11 instalments in cash afterwards.

During the year ended 31 December 2016, trade payables and other payables of approximately RMB5,583,000 and RMB7,317,000 (equivalent to approximately HK$6,118,000 and HK$8,017,000) respectively, were fully settled through consideration of disposing investment properties of approximately RMB12,900,000 (equivalent to approximately HK$14,135,000).

During the year ended 31 December 2016, the consideration of approximately RMB53,969,000 (equivalent to approximately HK$60,265,000) for acquiring investment properties in the PRC was settled through settlement of trade receivables of approximately RMB44,153,000 (equivalent to approximately HK$49,304,000) and amounts due from customers of contract work of approximately RMB9,816,000 (equivalent to approximately HK$10,961,000). Upon derecognition of trade receivables and amounts due from customers of contract work, the fair value of the investment properties was approximately RMB52,700,000 (equivalent to approximately HK$58,849,000), a fair value loss of RMB1,269,000 (equivalent to approximately HK$1,416,000) was recognised in the profit or loss.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2016 HK$'000	2015 HK$'000
Non-Current Assets			
Property, plant and equipment		–	7
Interests in subsidiaries	(a)	**836,134**	836,134
		836,134	836,141
Current Assets			
Prepayments, deposits and other receivables		**1,484**	1,455
Amounts due from subsidiaries	(a)	**426,876**	429,017
Bank balances and cash		**8,037**	38,170
		436,397	468,642
Current Liabilities			
Accrued liabilities and other payables		**2,310**	2,206
Amounts due to subsidiaries	(b)	**7,316**	28,678
		9,626	30,884
Net Current Assets		**426,771**	437,758
Net Assets		**1,262,905**	1,273,899
Capital and Reserves			
Share capital		**223,990**	225,184
Reserves	(c)	**1,038,915**	1,048,715
Total Equity		**1,262,905**	1,273,899

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

Notes:

(a) Interests in subsidiaries

	Notes	2016 HK$'000	2015 HK$'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)*	**426,876**	429,017
		1,493,898	1,496,039
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)
		1,263,010	1,265,151
Analysed for reporting purposes as:			
Non-current asset		**836,134**	836,134
Current asset		**426,876**	429,017
		1,263,010	1,265,151

(i) The amounts due from subsidiaries are unsecured, interest-free and with repayment term 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.

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

Notes: (Continued)

(c) Reserves

	Share premium *(Note i)* HK$'000	Contributed surplus *(Note ii)* HK$'000	Treasury shares HK$'000	Share-based payment reserve HK$'000	Capital reserve *(Note iii)* HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 45)*	26,585	–	–	(6,018)	–	–	20,567
Repurchase of ordinary shares *(Note 41)*	(18,786)	–	(210)	–	–	–	(18,996)
Recognition of share-based payment expenses *(Note 45)*	–	–	–	7,747	–	–	7,747
Lapse of share options *(Note 45)*	–	–	–	(19,391)	–	19,391	–
At 31 December 2015 and 1 January 2016	875,684	154,381	(3,293)	51,142	32,235	(61,434)	1,048,715
Loss and total comprehensive expense for the year	–	–	–	–	–	(14,173)	(14,173)
Repurchase of ordinary shares *(Note 41)*	(4,229)	–	3,293	–	–	–	(936)
Recognition of share-based payment expenses *(Note 45)*	–	–	–	5,309	–	–	5,309
Lapse of share options *(Note 45)*	–	–	–	(19,968)	–	19,968	–
At 31 December 2016	871,455	154,381	–	36,483	32,235	(55,639)	1,038,915

(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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50. PARTICULARS OF PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2016 and 2015 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				
				2016	2015	**2016**	2015	**2016**	2015	
CGSE Ever Source Group 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%**	100%	**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	–	–	**100%**	94.82%	**100%**	94.82%	Property management and technical support service
HYY#	The PRC	Registered capital	RMB189,188,502	–	–	**100%**	94.61%	**100%**	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	–	–	**100%**	94.82%	**100%**	94.82%	Installation of energy systems
金恒源#	The PRC	Registered capital	RMB10,000,000	–	–	**51%**	48.25%	**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%**	100%	**100%**	100%	Properties investment and development
Guangsha# *(Note 1)*	The PRC	Registered capital	RMB3,000,000	–	–	–	–	**100%**	100%	Provision of design for general industrial and residential architectures.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

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 and has been renewed in 2016 to extend to 31 December 2020, 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.

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	
		2016	2015
Investment holding	Hong Kong	**11**	10
Investment holding	Cayman Islands	**1**	1
Investment holding	BVI	**6**	6
Investment holding	The PRC	**8**	–
Business planning, consulting and management services and promotion	The PRC	**1**	–
Production and sales of geothermal energy systems	The PRC	**7**	–
Property management and technical support	The PRC	**1**	–
Properties investment and development	The PRC	**2**	6
		37	23

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50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

General information of subsidiaries *(Continued)*

Principle activity	Place of incorporation and operation	Number of non-wholly-owned subsidiaries 2016	2015
Investment holding	Hong Kong	–	2
Investment holding	BVI	–	1
Investment holding	The PRC	**3**	–
Production and sales of geothermal energy systems	The PRC	**7**	13
Property management and technical support service	The PRC	–	1
Properties investment and development	The PRC	–	1
Business planning, consulting and management services and promotion	The PRC	–	1
		10	19

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	
		2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
						HK$'000	HK$'000	**HK$'000**	HK$'000
HYY	The PRC	–	5.39%	–	5.39%	**(113)**	(1,969)	–	22,050
金恒源	The PRC	**49%**	51.75%	**49%**	49%	**(425)**	(1,455)	**25,400**	27,478
宏源地能熱寶	The PRC	**49%**	51.75%	**49%**	49%	**1,866**	(438)	**26,831**	4,945
Individually immaterial subsidiaries with non-controlling interests						**(2,141)**	3,262	**(6,776)**	(10,050)
						(813)	(600)	**45,455**	44,423

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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.

HYY

	2016	2015
	HK$'000	*HK$'000*
Non-current assets	–	742,932
Current assets	–	840,867
Current liabilities	–	(687,307)
Non-current liabilities	–	(487,405)
Equity attributable to owners of the Company	–	387,037
Non-controlling interests	–	22,050
Revenue	**2,565**	107,994
Expenses	**(4,656)**	(144,532)
Loss for the year	**(2,091)**	(36,538)
Loss attributable to owners of the Company	**(1,978)**	(34,569)
Loss attributable to the non-controlling interests	**(113)**	(1,969)
Loss for the year	**(2,091)**	(36,538)
Other comprehensive expense to owners of the Company	–	(5,598)
Other comprehensive expense to the non-controlling interests	–	(319)
Other comprehensive expense for the year	–	(5,917)

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50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

***HYY** (Continued)*

	2016	2015
	HK$'000	*HK$'000*
Total comprehensive expense to owners of the Company	**(1,978)**	(40,167)
Total comprehensive expense to the non-controlling interests	**(113)**	(2,288)
Total comprehensive expense for the year	**(2,091)**	(42,455)
Dividend paid to non-controlling interests	**–**	–
Net cash (outflow) inflow from operating activities	**(1,852)**	22,234
Net cash outflow from investing activities	**–**	(20,552)
Net cash outflow from financing activities	**–**	(38,806)
Net cash outflow	**(1,852)**	(37,124)

金恒源

	2016	2015
	HK$'000	*HK$'000*
Non-current assets	**58,870**	64
Current assets	**82,531**	149,723
Current liabilities	**(92,543)**	(96,690)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**23,458**	25,619
Non-controlling interests	**25,400**	27,478

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

金恒源 (Continued)

	2016 HK$'000	2015 HK$'000
Revenue	**23,824**	4
Expenses	**(24,691)**	(2,816)
Loss for the year	**(867)**	(2,812)
Loss attributable to owners of the Company	**(442)**	(1,357)
Loss attributable to the non-controlling interests	**(425)**	(1,455)
Loss for the year	**(867)**	(2,812)
Other comprehensive expense to owners of the Company	**(1,721)**	(1,220)
Other comprehensive expense to the non-controlling interests	**(1,653)**	(1,309)
Other comprehensive expense for the year	**(3,374)**	(2,529)
Total comprehensive expense to owners of the Company	**(2,163)**	(2,577)
Total comprehensive expense to the non-controlling interests	**(2,078)**	(2,764)
Total comprehensive expense for the year	**(4,241)**	(5,341)
Dividend paid to non-controlling interests	**–**	–
Net cash inflow (outflow) from operating activities	**58,424**	(4,145)
Net cash (outflow) inflow from investing activities	**(59,041)**	8,263
Net cash inflow from financing activities	**–**	–
Net cash (outflow) inflow	**(617)**	4,118

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50. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

宏源地能熱寶

	2016	2015
	HK$'000	*HK$'000*
Non-current assets	**4,847**	19
Current assets	**128,471**	28,455
Current liabilities	**(74,639)**	(17,396)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**31,848**	6,133
Non-controlling interests	**26,831**	4,945
Revenue	**220,292**	7,860
Expenses	**(216,484)**	(8,753)
Profit (loss) for the year	**3,808**	(893)
Profit (loss) attributable to owners of the Company	**1,942**	(455)
Profit (loss) attributable to the non-controlling interests	**1,866**	(438)
Profit (loss) for the year	**3,808**	(893)
Other comprehensive (expense) income to owners of the Company	**(1,078)**	14,619
Other comprehensive (expense) income to the non-controlling interests	**(1,036)**	14,046
Other comprehensive (expense) income for the year	**(2,114)**	28,665
Total comprehensive expense to owners of the Company	**864**	14,164
Total comprehensive expense to the non-controlling interests	**830**	13,608
Total comprehensive expense for the year	**1,694**	27,772
Dividend paid to non-controlling interests	**–**	–
Net cash (outflow) inflow from operating activities	**(33,704)**	549
Net cash outflow from investing activities	**(19,616)**	(1,882)
Net cash inflow from financing activities	**46,007**	11,933
Net cash (outflow) inflow	**(7,313)**	10,600

51. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2017, a share transfer agreement was entered into between the Group and 鹽城潤瀛實業投資有限公司 ("鹽城潤瀛"), pursuant to which 鹽城潤瀛 agreed to purchase and the Group agreed to sell, the 100% equity interest in 恒有源科技發展集團鹽城有限公司 at the consideration of RMB15,844,000 (equivalent to approximately HK$18,221,000). Up to the date of this report, the disposal is yet to be completed.

List of Major Properties Held by the Group

Location	Approximate gross floor area (square meter)	Group's interest	Land use	Term of lease	Stage of completion	Anticipated completion
Building						
No. 102 Xingshikou Road, Haidian District, Beijing, the PRC	5,628.82	100%	Office and industrial	Medium	Completed	–
Investment property						
No. 6, Zhuantang Science and Technology Economic Zone, Zhuantang Jiedao, Xihu District, Hangzhou City, Zhejiang Province, the PRC	32,798.00	100%	Office and industrial	Medium	Completed	–
Investment property under construction and development						
Xianyuwan Village, Xianyuwan Town, Wafangdian City, Dalian, Liaoning Province, the PRC	173,289.00	100%	Residential and Commercial	Medium	Planning in progress	December 2020