



CHINA GROUND SOURCE ENERGY LIMITED
中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2012

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement will remain on the “Latest Company Announcement” page on the GEM website for at least 7 days from the date of publication and on the website of China Ground Source Energy Limited at www.cgsenergy.com.hk.

FINAL RESULTS

The board of directors (“Directors”) of China Ground Source Energy Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2012, together with the comparative figures for the year ended 31 March 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Continuing operations			
Turnover	4	<u>318,079</u>	<u>322,211</u>
Revenue	5	318,079	322,211
Cost of sales		<u>(171,279)</u>	<u>(197,026)</u>
Gross profit		146,800	125,185
Other income	6	18,809	2,758
Selling and distribution expenses		(9,236)	(11,409)
Administrative expenses		(67,739)	(64,016)
Other operating expenses		(354)	(266)
Allowance for doubtful debts		(4,095)	(190)
Reversal of allowance for doubtful debts		<u>4,485</u>	<u>3,955</u>
Profit from operations		88,670	56,017
Fair value changes on investment properties		22,685	–
Share of results of associates		(3,852)	371
Gain on cancellation of convertible notes		–	5,049
Gain on disposal of subsidiaries		–	5,766
Gain on deemed disposal of a subsidiary		–	1,336
Gain (loss) on deregistration of subsidiaries		669	(128)
Share-based payments		(8,992)	(22,150)
Finance costs	7	<u>(925)</u>	<u>(7,486)</u>
Profit before tax		98,255	38,775
Income tax expense	8	<u>(34,862)</u>	<u>(15,004)</u>
Profit for the year from continuing operations		<u>63,393</u>	<u>23,771</u>
Discontinued operation			
Profit for the year from discontinued operation	9	<u>–</u>	<u>12,532</u>
Profit for the year		<u>63,393</u>	<u>36,303</u>

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company			
– from continuing operations		54,234	21,881
– from discontinued operation		<u>–</u>	<u>12,532</u>
Profit for the year attributable to owners of the Company		<u>54,234</u>	<u>34,413</u>
Non-controlling interests from continuing operations			
Profit for the year attributable non-controlling interests		<u>9,159</u>	<u>1,890</u>
		<u>63,393</u>	<u>36,303</u>
Earnings per share	<i>11</i>		
From continuing and discontinued operations			
Basic (HK cents)		<u>2.63</u>	<u>1.88</u>
Diluted (HK cents)		<u>2.62</u>	<u>1.82</u>
From continuing operations			
Basic (HK cents)		<u>2.63</u>	<u>1.20</u>
Diluted (HK cents)		<u>2.62</u>	<u>1.16</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit for the year	<u>63,393</u>	<u>36,303</u>
Other comprehensive income		
Exchange differences arising on translation of foreign operations	16,282	26,632
Share of other comprehensive income of associates	1,351	–
Fair value change on the transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	32,005	–
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	(7,994)	–
Gain on leasehold land and building revaluation	477	–
Reclassification adjustments for the cumulative loss transferred to profit or loss:		
– release of exchange translation reserve upon disposal of subsidiaries	–	(6,218)
– release of exchange translation reserve upon deemed disposal of a subsidiary	–	(5,267)
– release of exchange translation reserve upon deregistration of subsidiaries	<u>(1,203)</u>	<u>(341)</u>
Other comprehensive income for the year	<u>40,918</u>	<u>14,806</u>
Total comprehensive income for the year	<u><u>104,311</u></u>	<u><u>51,109</u></u>
Total comprehensive income attributable to:		
Owners of the Company	93,890	48,358
Non-controlling interests	<u>10,421</u>	<u>2,751</u>
	<u><u>104,311</u></u>	<u><u>51,109</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

	<i>Notes</i>	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Property, plant and equipment		34,638	50,791
Prepaid lease payments		–	26,926
Investment properties		152,592	–
Deposit paid for acquisition of land use rights		61,664	59,455
Goodwill		445,850	444,551
Intangible assets		971	2,186
Interests in associates		62,896	69,363
Available-for-sale investments		493	476
Other receivable		1,865	7,486
Deferred tax assets		21,690	21,570
		<u>782,659</u>	<u>682,804</u>
Current assets			
Inventories		20,779	25,019
Trade and retention receivables	<i>12</i>	56,456	71,476
Prepayments, deposits and other receivables		61,782	56,451
Prepaid lease payments		–	553
Amounts due from customers for contract work		413,690	277,679
Amounts due from non-controlling shareholders		–	3,092
Amount due from an associate		6,048	–
Held-for-trading financial assets		25	50
Restricted bank balances		–	1,278
Short-term bank deposits		2,467	2,378
Cash held at non-bank financial institutions		–	692
Bank balances and cash		135,539	143,528
		<u>696,786</u>	<u>582,196</u>

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current liabilities			
Trade payables	<i>13</i>	103,658	74,907
Accrued liabilities, deposits received and other payables		70,445	89,980
Amounts due to customers for contract work		15,440	9,675
Amounts due to non-controlling shareholders		12,376	10,270
Amount due to associates		15,727	29,334
Bank loan		2,467	–
Tax payable		49,896	21,279
		<u>270,009</u>	<u>235,445</u>
Net current assets		<u>426,777</u>	<u>346,751</u>
Total assets less current liabilities		<u>1,209,436</u>	<u>1,029,555</u>
Non-current liabilities			
Receipt in advance		32,408	–
Deferred income		14,794	–
Deferred tax liabilities		13,814	–
		<u>61,016</u>	<u>–</u>
Net assets		<u>1,148,420</u>	<u>1,029,555</u>
Capital and reserves			
Share capital		161,092	644,368
Reserves		948,157	361,999
Equity attributable to owners of the Company		1,109,249	1,006,367
Non-controlling interests		39,171	23,188
Total equity		<u>1,148,420</u>	<u>1,029,555</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2012

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Convertible notes reserve HK\$'000	Special reserve HK\$'000 (Note c)	Capital reserve HK\$'000 (Note d)	Share-based payment reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2010	529,387	517,867	1,139	87,910	-	-	26,240	6,713	(412,766)	756,490	45,237	801,727
Profit for the year	-	-	-	-	-	-	-	-	34,413	34,413	1,890	36,303
Other comprehensive income for the year												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	25,771	-	25,771	861	26,632
Reclassification adjustments for the cumulative loss transferred to profit or loss:												
- release of exchange translation reserve upon disposal of subsidiaries	-	-	-	-	-	-	-	(6,218)	-	(6,218)	-	(6,218)
- release of exchange translation reserve upon deemed disposal of a subsidiary	-	-	-	-	-	-	-	(5,267)	-	(5,267)	-	(5,267)
- release of exchange translation reserve upon deregistration of subsidiaries	-	-	-	-	-	-	-	(341)	-	(341)	-	(341)
Total other comprehensive income for the year	-	-	-	-	-	-	-	13,945	-	13,945	861	14,806
Total comprehensive income for the year	-	-	-	-	-	-	-	13,945	34,413	48,358	2,751	51,109
Acquisition of additional interests of a subsidiary	-	-	-	-	(1,694)	-	-	-	-	(1,694)	(22,079)	(23,773)
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	(2,721)	(2,721)
Disposal of a subsidiary	-	-	(5)	-	-	-	-	-	5	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	22,150	-	-	22,150	-	22,150
Issue of shares upon exercise of share options	14,882	9,788	-	-	-	-	(8,910)	-	-	15,760	-	15,760
Issue of share upon conversion of convertible notes	26,871	95,384	-	(44,537)	-	-	-	-	-	77,718	-	77,718
Issue of shares upon share subscription	73,228	1,502	-	-	-	-	-	-	-	74,730	-	74,730
Release upon cancellation of convertible notes	-	-	-	(24,900)	-	-	-	-	5,520	(19,380)	-	(19,380)
Release upon waiver of convertible notes	-	-	-	(18,473)	-	32,235	-	-	18,473	32,235	-	32,235
Appropriations	-	-	960	-	-	-	-	-	(960)	-	-	-
At 31 March 2011	<u>644,368</u>	<u>624,541</u>	<u>2,094</u>	<u>-</u>	<u>(1,694)</u>	<u>32,235</u>	<u>39,480</u>	<u>20,658</u>	<u>(355,315)</u>	<u>1,006,367</u>	<u>23,188</u>	<u>1,029,555</u>

Attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Assets		Special reserve HK\$'000 (Note c)	Capital reserve HK\$'000 (Note d)	Share-based payment reserve HK\$'000	Exchange translation reserve HK\$'000	(Accumulated	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
				revaluation reserve HK\$'000	Contributed surplus HK\$'000					losses)/ retained earnings HK\$'000			
At 1 April 2011	644,368	624,541	2,094	-	-	(1,694)	32,235	39,480	20,658	(355,315)	1,006,367	23,188	1,029,555
Profit for the year	-	-	-	-	-	-	-	-	-	54,234	54,234	9,159	63,393
Other comprehensive income for the year													
Fair value change transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	-	-	-	32,005	-	-	-	-	-	-	32,005	-	32,005
Gain on leasehold land and building revaluation	-	-	-	477	-	-	-	-	-	-	477	-	477
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	1,351	-	1,351	-	1,351
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	-	-	-	(7,994)	-	-	-	-	-	-	(7,994)	-	(7,994)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	15,020	-	15,020	1,262	16,282
Reclassification adjustments for the cumulative loss transferred to profit or loss: - release of exchange translation reserve upon deregistration of subsidiaries	-	-	-	-	-	-	-	-	(1,203)	-	(1,203)	-	(1,203)
Total other comprehensive income for the year	-	-	-	24,488	-	-	-	-	15,168	-	39,656	1,262	40,918
Total comprehensive income for the year	-	-	-	24,488	-	-	-	-	15,168	54,234	93,890	10,421	104,311
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	8,067	8,067
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,505)	(2,505)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	8,992	-	-	8,992	-	8,992
Reduction of issued share capital	(483,276)	-	-	-	483,276	-	-	-	-	-	-	-	-
Utilisation of the contributed surplus	-	-	-	-	(328,895)	-	-	-	-	328,895	-	-	-
Lapse of share option	-	-	-	-	-	-	-	(18,767)	-	18,767	-	-	-
Appropriations	-	-	117	-	-	-	-	-	-	(117)	-	-	-
At 31 March 2012	<u>161,092</u>	<u>624,541</u>	<u>2,211</u>	<u>24,488</u>	<u>154,381</u>	<u>(1,694)</u>	<u>32,235</u>	<u>29,705</u>	<u>35,826</u>	<u>46,464</u>	<u>1,109,249</u>	<u>39,171</u>	<u>1,148,420</u>

Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.
- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (d) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2012

1. GENERAL

China Ground Source Energy Limited (the “Company”) was incorporated in the Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 November 2001.

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

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standard (“HKAS”) 24 (as revised in 2009)	Related Party Disclosures
Amendments to Hong Kong (International Financial Reporting Interpretation Committee) (“HK (IFRIC)”) – Interpretation (“Int”) 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

Amendments to HKFRS 3 Business Combination (as part of improvements of HKFRSs issued in 2010)

As part of Improvements to HKFRSs issued in 2010, HKFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other standards.

Such amendments to HKFRS 3 have been applied in the current year and had no effect on the consolidated financial statements of the Group for the current year.

New and revised HKFRSs issued but not yet effective

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

Amendments to HKFRS	Annual Improvements 2009 – 2011 Cycle ⁴
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
	First-time Adoption of HKFRSs – Government Loans ⁴
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹
	Disclosures – Offsetting Financial Assets and Financial Liabilities ⁴
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁶
HKFRS 9	Financial Instruments ⁶
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosures of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ³
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (as revised in 2011)	Employee Benefits ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁵
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ⁴

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2012.

³ Effective for annual periods beginning on or after 1 July 2012.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2014.

⁶ Effective for annual periods beginning on or after 1 January 2015.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

To date, the Group has not entered into transactions involving transfers of financial assets. However, if the Group enters into any types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

To date, the Group has not entered into transactions involving offsetting of financial assets and financial liabilities. However, if the Group enters into any types of offsetting of financial assets and financial liabilities in the future, disclosures regarding the offsetting may be affected.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires 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. 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, 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.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company are in the process of making an assessment of the potential impact of HKFRS 9 and the directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (Standing Interpretations Committee) ("SIC") – Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipated that the application of other new and revised standards, amendments or interpretation would have no material impact on the results and the financial positions of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for leasehold building, investment properties and certain financial instruments, which are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

4. TURNOVER

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Sales and installation of shallow ground energy utilisation system	313,127	317,843
Maintenance services for shallow ground energy utilisation system	445	2,760
Rental income (<i>Note (i)</i>)	4,507	–
Dividend income	–	1,608
	<u>318,079</u>	<u>322,211</u>

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Gross rental income	4,507	–
Less: direct operating expenses from investment properties that generated rental income during the year	<u>(611)</u>	<u>–</u>
Net rental income	<u>3,896</u>	<u>–</u>

5. SEGMENT INFORMATION

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

- (a) Shallow ground energy segment – provision, installation and maintenance of shallow ground energy utilisation system;
- (b) Securities investment and trading segment – trading of investment securities;
- (c) Properties investments segment – investment in properties for its potential rental income; and
- (d) Other segment – provision and sales of telecommunications network infrastructure solutions and network management solutions and have no operation for the year ended 31 March 2012.

On 13 September 2010, the Group completed the disposal of its wholly-owned subsidiary, IIN Network Technology Limited and its subsidiaries (“IIN Network Technology Group”) which were engaged in synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waste water and utilisation of new energy sources. The segment information reported on the next pages does not include any amounts for this discontinued operations, which are described in more detail in note 9.

Properties investments segments was the new reportable and operating segment for the year ended 31 March 2012.

Segment revenue and results

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

For the year ended 31 March 2012

Continuing operations

	Shallow ground energy HK\$'000	Securities investment and trading HK\$'000	Properties investment HK\$'000	Total HK\$'000
REVENUE				
External sales	<u>313,572</u>	<u>–</u>	<u>4,507</u>	<u>318,079</u>
Segment results	<u>125,549</u>	<u>(2,027)</u>	<u>24,924</u>	148,446
Share of results of associates				(3,852)
Unallocated other income				2,057
Unallocated expenses				(48,348)
Finance costs				<u>(48)</u>
Profit before tax (continuing operations)				<u>98,255</u>

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External sales	<u>320,603</u>	<u>1,608</u>	<u>–</u>	<u>–</u>	<u>322,211</u>
Segment results	<u>77,578</u>	<u>(5,805)</u>	<u>–</u>	<u>(702)</u>	71,071
Share of results of associates					371
Unallocated other income					6,319
Unallocated expenses					<u>(38,986)</u>
Profit before tax (continuing operations)					<u>38,775</u>

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

Segment assets and liabilities

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

Segment assets

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Shallow ground energy	1,107,203	1,005,345
Securities investment and trading	3,084	9,064
Properties investment	138,321	–
Others	<u>–</u>	<u>1,204</u>
Total segment assets	1,248,608	1,015,613
Unallocated corporate assets	<u>230,837</u>	<u>249,387</u>
Consolidated total assets	<u>1,479,445</u>	<u>1,265,000</u>

Segment liabilities

	2012	2011
	HK\$'000	HK\$'000
Shallow ground energy	201,783	170,663
Securities investment and trading	2,389	1,557
Properties investment	46,387	–
Others	–	2,342
	<hr/>	<hr/>
Total segment liabilities	250,559	174,562
Unallocated corporate liabilities	80,466	60,883
	<hr/>	<hr/>
Consolidated total liabilities	<u>331,025</u>	<u>235,445</u>

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

- all assets are allocated to operating segments other than interests in associates, deferred tax assets, restricted bank balance, short-term bank deposits, cash held at non-bank financial institutions, bank balances and cash and unallocated corporate assets; and
- all liabilities are allocated to operating segments other than amounts due to non-controlling shareholders, amount due to associates, bank loan, tax payable and unallocated corporate liabilities.

Other segment information

For the year ended 31 March 2012

Continuing operations

	Shallow ground energy HK\$'000	Securities investment and trading HK\$'000	Properties investment HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets (<i>note</i>)	8,658	1,411	6,977	17,046
Development cost paid to investment properties under construction	–	–	56,752	56,752
Reversal of allowance for doubtful debts	(4,485)	–	–	(4,485)
Depreciation and amortisation	4,904	–	–	4,904
Allowance for doubtful debts	4,095	–	–	4,095
Fair-value changes on held-for-trading financial assets	–	25	–	25
Imputed interest expense on receipt in advance	877	–	–	877
Loss on disposal of property, plant and equipments	131	–	–	131
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interests in associates	62,896	–	–	62,896
Share of results of associates	3,852	–	–	3,852
Interest income	(746)	–	–	(746)
Interest expenses	48	–	–	48
Income tax expense	29,191	–	5,671	34,862

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets (<i>Note</i>)	60,529	–	–	60,529
Depreciation and amortisation	3,756	–	325	4,081
Allowance for doubtful debts	190	–	–	190
Reversal of allowance for doubtful debts	(3,955)	–	–	(3,955)
Gain on cancellation of convertible notes	(5,049)	–	–	(5,049)
Gain on deemed disposal of a subsidiary	(1,336)	–	–	(1,336)
Loss on disposal of an associate	12	–	–	12
Loss on written off of plant and equipment	44	–	–	44
Loss on deregistration of subsidiaries	128	–	–	128
Imputed interest expense on convertible notes	7,486	–	–	7,486

Amounts regularly provided to the chief
operating decision maker but not
included in the measure of segment
profit or loss or segment assets:

Interests in associates	69,363	–	–	69,363
Share of results of associates	(371)	–	–	(371)
Interest income	(325)	–	(114)	(439)
Income tax expense	15,004	–	–	15,004

Note: Non-current assets excluded those relating to discontinued operation and excluded goodwill, investment properties, interest in associates, available-for-sale investments, non-current portion of other receivable 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 in the PRC.

Information about major customers

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the years ended 31 March 2012 and 2011.

6. OTHER INCOME

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Continuing operations		
Bank interest income	746	439
Government grants (<i>Note a</i>)	10,343	1,109
Sale of raw materials	797	–
Imputed interest income on other receivable	699	961
Imputed interest income on receipt in advance	5,424	–
Others	800	249
	<u>18,809</u>	<u>2,758</u>

Note a: Included in the amount of government grants recognised during the year ended 31 March 2012, approximately HK\$3,497,000 (2011: HK\$623,000) were received in respect of certain research projects of the Group and the Group fulfilled the relevant granting criteria which made the Group to recognise the government grants recognised as other income immediately for the year. Approximately HK\$6,846,000 (2011: HK\$486,000) were government grants utilised during the year.

7. FINANCE COSTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Continuing operations		
Interest on bank loan wholly repayable within five years	48	–
Imputed interest expense on receipt in advance	877	–
Imputed interest expense on convertible notes	–	7,486
	<u>925</u>	<u>7,486</u>

8. INCOME TAX EXPENSE

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Continuing operations		
Current tax:		
PRC EIT	28,871	14,063
Under provision in prior years:		
Hong Kong Profits Tax	223	–
Deferred tax	<u>5,768</u>	<u>941</u>
	<u>34,862</u>	<u>15,004</u>

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 March 2012 and 31 March 2011.

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

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

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprise in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 March 2012 (2011: 15%).

The Group has provided tax liabilities in respect of the mentioned years of assessment. The directors of the Company considered that there was no material under-provision of tax liabilities as at 31 March 2012.

The tax expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before tax (from continuing operations)	<u>98,255</u>	<u>38,775</u>
Tax at the domestic income tax rate	27,197	13,109
Under-provision in prior years	223	–
Tax effect of share of results of associates	912	(15)
Tax effect of expenses not deductible for tax purpose	10,022	6,002
Tax effect of income not taxable for tax purpose	(657)	(1,447)
Income tax on concessionary rate	<u>(2,835)</u>	<u>(2,645)</u>
Tax expense for the year (relating to continuing operations)	<u>34,862</u>	<u>15,004</u>

9. DISCONTINUED OPERATION

During the year ended 31 March 2011, the Group entered into a sale agreement with an independent third party to dispose of its wholly-owned subsidiary, IIN Network Technology Group, which was engaged in the environmental protection segment. The disposal was effected in order to streamline the business of the Group. The disposal was completed on 13 September 2010, on which date control of IIN Network Technology Group passed to the acquirer.

The profit for the year ended 31 March 2011 from the discontinued operation is analysed as follows:

	2011 <i>HK\$'000</i>
Loss of environmental protection operation for the year	(3,369)
Gain on disposal of environmental protection operation	<u>15,901</u>
	<u>12,532</u>

The results of the environmental protection operation for the period from 1 April 2010 to 13 September 2010, which have been included in the consolidated income statement, were as follows:

	2011 <i>HK\$'000</i>
Revenue	14,016
Cost of sales	<u>(13,424)</u>
Gross profit	592
Other income	493
Administrative expenses	<u>(4,454)</u>
Loss before tax	(3,369)
Income tax expense	<u>—</u>
Loss for the year	<u><u>(3,369)</u></u>

Loss for the year from discontinued operation including the following:

	2011 <i>HK\$'000</i>
Bank interest income	(7)
Amortisation of deferred income on government grants	(486)
Cost of inventories sold	13,424
Depreciation of property, plant and equipment	461
Staff costs	800
Research costs (included in administrative expenses)	1,886
Lease payments under operating lease in respect of land and building	<u><u>410</u></u>

No tax charge or credit arose on loss on discontinuance of the operation.

The cash flows attributable to the discontinued operation are as follows:

Net cash generated from operating activities	1,049
Net cash used in investing activities	<u>(844)</u>
Net cash inflow	<u><u>205</u></u>

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

11. EARNINGS PER SHARE

From continuing and discontinued operation

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company and for the purpose of basic and diluted earnings per share	<u>54,234</u>	<u>34,413</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,065,307	1,828,837
Effect of dilutive potential ordinary shares:		
Share options	<u>2,001</u>	<u>60,401</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,067,308</u>	<u>1,889,238</u>

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company and for the purpose of basic earnings per share	54,234	34,413
Less: profit for the year from discontinued operation	<u>–</u>	<u>12,532</u>
Earnings for the purpose of basic and diluted earnings per share from continuing operations	<u>54,234</u>	<u>21,881</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,065,307	1,828,837
Effect of dilutive potential ordinary shares:		
Share options	<u>2,001</u>	<u>60,401</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,067,308</u>	<u>1,889,238</u>

From discontinued operation

For the year ended 31 March 2011, basic earnings per share for the discontinued operation is HK\$0.68 cents per share. The diluted earnings per share for the discontinued operations is HK\$0.66 cents per share for the year ended 31 March 2011.

12. TRADE AND RETENTION RECEIVABLES

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	54,747	52,699
Retention receivables	10,188	27,345
Less: allowance for doubtful debts	<u>(8,479)</u>	<u>(8,568)</u>
	<u>56,456</u>	<u>71,476</u>

The Group allows an average credit period ranging from 30 to 180 days, and more than 365 days to its trade receivables and retention receivables respectively. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period. The Group does not hold any collateral over these balances.

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 90 days	2,002	12,446
91 to 180 days	3,495	3,923
181 to 365 days	10,061	20,534
Over 365 days	<u>30,710</u>	<u>7,228</u>
	<u>46,268</u>	<u>44,131</u>

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK\$30,710,000 (2011: HK\$7,228,000) 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 ageing of trade receivables which were past due but not impaired is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Over 365 days	<u>30,710</u>	<u>7,228</u>

The Group's neither past due nor impaired trade receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default.

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Balance at beginning of the year	8,568	13,504
Exchange realignment	301	555
Impairment losses recognised on trade receivables	4,095	190
Impairment losses reversed	(4,485)	(3,955)
Disposal of a subsidiary	-	(593)
Deemed disposal of a subsidiary	-	(1,133)
	<u> </u>	<u> </u>
Balance at end of the year	<u>8,479</u>	<u>8,568</u>

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of approximately HK\$8,479,000 (2011: HK\$8,568,000) which have been placed in severe financial difficulties.

13. TRADE PAYABLES

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within 90 days	39,765	17,301
91 to 180 days	16,685	7,612
181 to 365 days	10,355	14,709
Over 365 days	36,853	35,285
	<u> </u>	<u> </u>
	<u>103,658</u>	<u>74,907</u>

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.

14. EVENTS AFTER THE REPORTING PERIOD

- (i) On 14 June 2012, the Group had disposed the contract related to the acquisition of land use rights to an individual third party in consideration of RMB54,000,000 (approximately HK\$67,000,000). Deposit paid related to the acquisition of land use rights were amounted to RMB50,000,000 (approximately HK\$61,664,000) as at 31 March 2012 and related capital commitment were amounted to RMB141,000,000 (approximately HK\$173,892,000). Upon the disposal, RMB1,000,000 were received.
- (ii) Pursuant to the announcement and circular of the Company dated 12 April 2012 and 5 June 2012 respectively, the Company entered into the letter of intent with a subscriber, being an independent third party, in relation to the allotment and issue of 850,000,000 subscription shares at a price of HK\$0.41 per subscription share. Allotment of part of the subscription shares shall be approved by the shareholders of the Company. On 22 June 2012, an ordinary resolution approving the specific mandate and the transaction contemplated thereunder had been passed in the extraordinary general meeting. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 12 April 2012 and 5 June 2012 respectively.
- (iii) Pursuant to the announcement of the Company dated 14 June 2012, the Company has received a petition pursuant to Section 168A of the Hong Kong Companies Ordinance, Chapter 32 which filed by Ms. Cheung Kwan, the former director of the Company and certain subsidiaries of the Group, as petitioner, to the High Court on 13 June 2012. The petition was made against Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, both being executive directors of the Company and Ms. Luk Hoi Man, being the non-executive director of the Company and the Company. Pursuant to the petition, the petitioner made allegations that affairs of the Company were conducted in a manner which are unfairly prejudicial to her interest in the Company. Details of petition are set out, inter alia, in the announcement of the Company dated 14 June 2012.

The directors of the Company have consulted an legal advisor that the claims are against the above mentioned directors of the Company and does not see any direct liability due from the Company to the petitioner. In the opinion of the directors of the Company, there are no potential liabilities imposed on the Company.

SUMMARY OF THE INDEPENDENT AUDITORS' REPORT

The Directors would like to draw your attention to the fact that the independent auditors' report on the consolidated financial statements of the Group for the year ended 31 March 2012.

Basis for qualified opinion

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 March 2011, which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified due to limitations of audit scope related to the carrying value of the disposed group and the gain on disposal of subsidiaries as recorded, details of which are set out in our audit report dated 29 June 2011. Any adjustments to the figures might have a consequential effect on the profit and cash flows of the Group and the related disclosures in the notes to the consolidated financial statements for the year ended 31 March 2011.

Qualified Opinion arising from limitation of audit scope on corresponding figures for the year ended 31 March 2011

In our opinion, except for the possible effects of any adjustments or disclosures that might have been determined to be necessary had we been able to obtain sufficient evidence concerning the corresponding figures as mentioned in the basis for qualified opinion paragraph above, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

Highlights

The Group's profit attributable to shareholders for the year ended 31 March 2012 was HK\$54 million on a turnover of HK\$318 million, compared with a profit of HK\$34 million on a turnover of HK\$322 million for the previous year.

Financial Review

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 March 2012 and 2011.

	Year ended 31 March 2012		Year ended 31 March 2011	
	HK\$'000	%	HK\$'000	%
Continuing operations:				
Turnover:				
– Shallow ground energy utilisation	313,572	99	320,603	95
– Properties investment	4,507	1	–	–
– Dividend income	–	–	1,608	1
	<u>318,079</u>	<u>100</u>	<u>322,211</u>	<u>96</u>
Discontinued operation:				
Turnover:				
– Sewage and gas treatment income	–	–	14,016	4
Total turnover from continuing operations and discontinued operation	<u>318,079</u>	<u>100</u>	<u>336,227</u>	<u>100</u>

Turnover and Profits

Total turnover from operations for the year under review were approximately HK\$318 million, as compared with HK\$322 million for year ended 31 March 2011. The turnover of approximately HK\$14 million from discontinued operation for the year ended 31 March 2011 was contributed by environmental protection segment, which was disposed of by the Group in September 2010.

Turnover from shallow ground energy utilisation system was steady following the substantial expansion of workload in different provinces in the People Republic of China (“PRC”).

During the year under review, the Group recorded net profit of approximately HK\$63 million compared with a profit of approximately HK\$36 million for the year ended 31 March 2011. The increase in net profit was primarily due to the increase in the gross profits of the sales and installation of shallow ground energy utilisation system achieved by the Group's optimization on customers' orders; and the fair value changes on investment properties of the Group.

Gross Profit Margin

Gross profit from the Group's operations for the year was approximately HK\$147 million or, as a percentage of revenue, 46.2%. (2011: HK\$125 million, 38.9% of revenue). The increase was mainly due to higher profit margin from shallow ground energy utilization achieved by the Group's optimization on customers' orders.

Selling & Distribution Costs And Administrative Expenses

Selling and distribution costs decreased by approximately HK\$2 million, or 19% as compared with that of the year ended 31 March 2011. The decrease was primarily due to the decrease of after sales service cost of company projects.

Administrative expenses amounted to approximately HK\$68 million and HK\$64 million for the years ended 31 March 2012 and 2011 respectively. The expenses were remained at similar level as compared with the last year.

Segmental Information

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

Shallow Ground Energy Utilisation

During the year ended 31 March 2012, there were capital injection by the Group to a subsidiary, 綿陽市金恆源地能科技有限公司 in Sichuan Province. The Group expanded the business in provinces other than Beijing and Dalian.

Securities investment and trading

The Group utilised the idle fund for securities investment and trading in order to increase the shareholders' net wealth.

Properties investment

During the year ended 31 March 2012, the Group had expanded its business to the self-built demonstration projects in Beijing and Dalian for promotion of the application of ground source energy as alternative energy for heating/cooling supply. The substantial increase in fair value gain on investment properties in 2012 was mainly the result of the valuation of Wanghaixingcheng (旺海興城) in Dalian.

Further information regarding the Company's operating segments may be referred to note 5 "Segment Information" of this announcement.

Financial Resources and Liquidity

Net current assets of the Group as at 31 March 2012 was approximately HK\$427 million (2011: approximately HK\$347 million). As at 31 March 2012, the Group had cash and bank balances of approximately HK\$136 million (2011: approximately HK\$144 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes. Our principal sources of liquidity have been derived from cash from operations.

Charges of Group Assets

As at 31 March 2012, no group assets have been charged (2011: nil).

Exposure to Fluctuation in Exchange Rates

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi.

The Group continued to adopt a conservative treasury policy by keeping all bank deposits in either Hong Kong dollars or Renminbi to minimize exposure to foreign exchange risks.

As at 31 March 2012, the Group had no foreign exchange contracts (2011: nil).

Gearing Ratio

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank loans) to the equity (including all capital and reserves) of the Company, increased to 0.2% for the year under review (2011: N/A), mainly as a result of raising bank loans during the year.

Employees

As at 31 March 2012, the Group employed approximately 550 people (2011: approximately 500). The increase in the number of employees compared to 2011 was due to the expansion of business in different provinces.

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

Share Option Plan

The Company has a share option plan that provides for incentive reward by the issuance of options to its directors, officers and employees.

The detail disclosures relating to the Company's share option scheme are set out in note 50 to the consolidated financial statements of the Company's Annual Report for the year ended 31 March 2012.

Contingent Liabilities

As at 31 March 2012, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings except a petition was made against to three directors of the Company and the Company, details of the petition can be referred to the Company's announcement dated 14 June 2012. Based on the advice of the legal advisors, they do not see any direct liability due from the Company to the petitioner under the claims, therefore, no material provision for contingent liabilities was required.

Dividend

The Board of Directors does not recommend the payment of a final dividend for the year under review (2011: Nil).

Capital Structure

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 23 March 2011, and the subsequent Order of the Grand Court of the Cayman Islands granted on 17 June 2011, the Company effected a capital reduction (the "Capital Reduction") which took effect on 23 June 2011. The paid-up capital on each of its issued ordinary share of US\$0.04 was cancelled to the extent of US\$0.03 per share, and the nominal value of each of the issued ordinary shares of the Company was reduced from US\$0.04 per share to US\$0.01 per share.

A total credit of approximately HK\$483 million arose as a result of the Capital Reduction of which an amount of approximately HK\$329 million was applied towards writing off the accumulated losses of the Company as at 31 March 2011.

Capital Commitment and Substantial Investments

Details of capital commitment are set out in note 49 to the consolidated financial statements of the Company's Annual Report for the year ended 31 March 2012.

Future Plans For Substantial Investments Of Capital Assets

Our Company anticipates that it will be necessary to make substantial capital expenditures for the development and operation of its shallow ground energy segment and properties investment segment in the future.

On 11 April 2012, the Company entered into the Letter of Intent with the subscriber in relation to the allotment and issue of 850,000,000 Subscription Shares at a price of HK\$0.41 per Subscription Share. Amongst the net proceeds of HK\$347.5 million, approximately HK\$200 million will be used for initial capital injection into Heng Run Feng Infrastructure Construction (Dalian) Co., Ltd. (恒潤豐城市基礎設施建設(大連)有限公司), a subsidiary of the Company, formed for the construction of the multi-source energy station. The remaining HK\$147.5 million will be mainly applied to the Company's business development of its self-built demonstration projects in Beijing and Dalian for promotion of the application of ground source energy as alternative energy for heating/cooling supply, the general working capital of the Company and/or for future investment opportunities in the area of energy conservation and environmental protection. Please refer to the Company's circular dated 5 June 2012 for more details.

There can be no assurance that debt and equity financing, or cash generated by operations, will be sufficient to meet future investment programs. The Company may enter into transactions financed partially or wholly with debt, which may increase the debt levels. The Company will continue to explore new opportunities in energy-related projects in PRC and overseas.

Major Acquisitions and Disposals

Details of major acquisition and disposal transactions are set out in notes 43, 44 and 45 respectively to the consolidated financial statements of the Company's Annual Report for the year ended 31 March 2012.

BUSINESS REVIEW AND OUTLOOK

The Group focuses on the research on, design and production for, the development and utilisation of ground source energy to provide a wide range of technological services. Leveraging on five business models, the Group endeavors to promote the development of using ground source energy as alternative energy for heating in China in the pursuit of the harmony between human beings and nature. With the investment and operating costs that are flat to the level of conventional energy, while heating/cooling supply to buildings can be guaranteed, pollution-free to the regions under heating/cooling supply can also be realised. With an aim to solve the ecological problem arising from energy consumption for heating while improving the quality of life of people in China, full efforts have been made to build the Group into the most competitive new energy enterprise in the utilisation of ground source energy of the world. We spare no effort in promoting green energy for a better life and living condition and achieving harmonious development.

Ever Source Scientific and Technology Development Co., Ltd. (恆有源科技發展有限公司) (“HYY”), the core enterprise of the Group, is an innovative designer of know-how and system integrator of ground source energy as alternative energy for heating. HYY has accumulated substantial operating data and extensive practical experience in using ground source energy as alternative energy for heating/cooling for buildings with various functions in different regions and different geological conditions. With technological innovation as its top priority, HYY has made continuous efforts to improve its research and development capability, the buildings using HYY ground source energy heat pump environmental system to supply heat for buildings result in more than 60% of the total energy consumption for heating supply of the building is renewable energy, which makes the application of technology more practical and more outstanding.

The five business models promoting ground source energy as alternative energy for heating include:

1. Gains from the use of patent technology and commissioned processing of the relevant patent products
2. Applied design, equipment integration, sales and installation projects of HYY ground source energy heat pump environmental system
3. Energy contracting management for buildings
4. Construction and development of self-built demonstration projects for application of ground source energy
5. Construction and development of distributed multi-source energy stations focused on using ground source energy

During the period, the gross margin of our applied design, equipment integration, sales and installation projects of HYY ground source energy heat pump environmental system grew steadily due to the improved client orders. Meanwhile, due to its proactively expansion of marketing channels, the new business models began to bear fruit.

The Chinese government has been actively promoting energy contracting management to meet the target of energy saving and emission reduction. Combining with the business characteristics of promoting ground source energy, the Group takes this opportunity to strengthen the business of energy contracting management and make it become a new source of future profit growth.

Dalian Wanghaixingcheng project and Beijing industrial base project, the two self-built demonstration projects invested by the Group, are under construction and developing in phases as scheduled.

The Group had entered into a cooperation agreement with Wafangdian municipal government. Pursuant to which the Group supplied 200,000 kW of heat for 3,000,000 square meters under the first phase of development (1.23 square kilometers) of Land A, which covers an area of 4.12 square kilometers. The construction of distributed multi-source energy stations focused on using ground source energy is now in the process of preparing the design proposal.

The Group had entered into a letter of intent for new share subscription with China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (中國節能環保(香港)投資有限公司) (“CECEP(HK)”), a wholly-owned subsidiary of a large state-owned enterprise in the field of energy conservation and environmental protection. Upon completion of the subscription, CECEP(HK) will provide a good opportunity for the Group to increase its revenue and market share in the promotion of ground source energy. The Group will also become the sole listed company in Hong Kong with a large state-owned enterprise as its single largest shareholder specified in the field of promoting the ground source energy as alternative energy for heating.

We believe that the industry of using ground source energy as alternative energy for heating will achieve a substantial and stable growth and further improve our operating results in virtue of the reasonable adjustments and efforts we made, which have enhanced our standard of scientific research on the utilisation of ground source energy as alternative energy for heating, and by the improvement of the five innovative and sustainable profit models we made in practice.

CORPORATE GOVERNANCE

The Board considers that good corporate governance of the Company is the key to safeguard the interests of the shareholders and enhancing the performance of the Company. The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company and will continuously review and improve the corporate governance practices and standard of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Code (the “Code”) contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2012, except that the non-compliance of Rule 5.05(1) of the GEM Listing Rules by the Company following the resignation of Mr. Yau Kiam Fee as independent non-executive director on 1 February 2012. The Company has re-complied with the Rule 5.05(1) of the GEM Listing Rules on 21 March 2012 by the appointment of Mr. Wu Desheng as independent non-executive director.

On 21 March 2012, the nomination committee of the Company comprising Ms. Chan Wai Kay Katherine as the chairman, and Mr. Chow Wan Hoi Paul, Mr. Jia Wenzeng and Mr. Wu De Sheng as members has been established by the Board with its written terms of reference posted on the website of the Stock Exchange and the Company respectively.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. After the resignation of Mr. Yau Kiam Fee as a member of Audit Committee on 1 February 2012, the audit committee only consisted of two independent non-executive Directors of the Company, namely Mr. Jia Wenzeng and Mr. Chow Wan Hoi Pau. Since then, the Company has failed to comply with the minimum number of three members for the Audit Committee as required under Rule 5.28 of the GEM Listing Rules. This non-compliance was rectified when appointment of Mr. Wu Desheng as audit committee member on 21 March 2012.

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Chow Wan Hoi Paul and Mr. Wu Desheng.

The Audit Committee has reviewed the Group's audited final results for the year ended 31 March 2012 and has provided advice and comments thereon. The Audit Committee held five meetings during the period under review.

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 period under review, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

As at the date of this announcement, the Board comprises Ms. Chan Wai Kay, Katherine and Mr. Xu Shengheng as executive Directors, Ms. Luk Hoi Man as non-executive Director, Mr. Jia Wenzeng, Mr. Paul Chow Wan Hoi and Mr. Wu Desheng as independent non-executive Directors.

By order of the board of
China Ground Source Energy Limited
Chan Wai Kay, Katherine
Chairman

Hong Kong, 28 June 2012