CGS

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 2011

Characteristics of the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 announcement 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 announcement misleading.

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.iini.com.

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 2011, together with the comparative figures for the six months ended 31 March 2010 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2011

	Notes	**Year ended 31 March 2011** *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Continuing operations			
Turnover	*4*	**322,211**	162,323
Revenue	*5*	**322,211**	160,493
Cost of sales		**(197,026)**	(117,989)
Gross profit		**125,185**	42,504
Other income	*6*	**2,758**	16,752
Selling and distribution expenses		**(11,409)**	(5,741)
Administrative expenses		**(64,016)**	(32,470)
Other operating expenses		**(266)**	(1,149)
Allowance for doubtful debts		**(190)**	(9,298)
Gain on disposal of financial assets at fair value through profit or loss		**–**	266
Gain on disposal of available-for-sale investments		**–**	13,234
Reversal of allowance for doubtful debts		**3,955**	18,907
Profit from operations		**56,017**	43,005
Share of results of associates		**371**	214
Gain on cancellation of convertible notes		**5,049**	–
Gain on disposal of subsidiaries		**5,766**	8,464
Gain on deemed disposal of a subsidiary		**1,336**	–
Loss on deregistration of subsidiaries		**(128)**	–
Share-based payments		**(22,150)**	(907)
Finance costs	*7*	**(7,486)**	(11,829)
Profit before tax		**38,775**	38,947
Income tax expense	*8*	**(15,004)**	(12,618)
Profit for the year/period from continuing operations		**23,771**	26,329
Discontinued operation			
Profit/(loss) for the year/period from discontinued operation	*9*	**12,532**	(75,099)
Profit/(loss) for the year/period		**36,303**	(48,770)

	Notes	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Profit/(loss) for the year/period attributable to:			
Owners of the Company			
– Profit for the year/period from continuing operations		**21,881**	28,695
– Profit/(loss) for the year/period from discontinued operations		**12,532**	(75,099)
Profit/(loss) for the year attributable to owners of the Company		**34,413**	(46,404)
Non-controlling interests			
– Profit/(loss) for the year/period from continuing operations		**1,890**	(2,366)
– Profit/(loss) for the year/period from discontinued operations		**–**	–
Profit/(loss) for the year attributable non-controlling interests		**1,890**	(2,366)
		36,303	(48,770)
Earnings (loss) per share	*11*		
From continuing and discontinued operations			
Basic (HK cents)		**1.88**	(2.75)
Diluted (HK cents)		**1.82**	(2.75)
From continuing operations			
Basic (HK cents)		**1.20**	1.70
Diluted (HK cents)		**1.16**	1.65

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Profit (loss) for the year/period	**36,303**	(48,770)
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations	**26,632**	(402)
Gain on fair value changes of available-for-sale investments	**–**	6,221
Reclassification adjustments for the cumulative loss transferred to profit or loss:		
– upon disposal of available-for-sale investments	**–**	(6,221)
– release of exchange translation reserve upon disposal of subsidiaries	**(6,218)**	(29)
– release of exchange translation reserve upon deemed disposal of a subsidiary	**(5,267)**	–
– release of exchange translation reserve upon deregistration of subsidiaries	**(341)**	–
Other comprehensive income (expense) for the year/period	**14,806**	(431)
Total comprehensive income (expense) for the year/period	**51,109**	(49,201)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**48,358**	(46,984)
Non-controlling interests	**2,751**	(2,217)
	51,109	(49,201)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Notes	**31 March 2011** *HK$'000*	31 March 2010 *HK$'000*
Non-current assets			
Property, plant and equipment		**50,791**	29,808
Prepaid lease payments		**26,926**	–
Deposit paid for acquisition of land use rights		**59,455**	56,787
Goodwill		**444,551**	505,062
Intangible assets		**2,186**	3,280
Interests in associates		**69,363**	34,998
Available-for-sale investments		**476**	488
Other receivable		**7,486**	12,875
Deferred tax assets		**21,570**	22,802
		682,804	666,100
Current assets			
Inventories		**25,019**	71,092
Trade and retention receivables	*12*	**71,476**	68,519
Prepayments, deposits and other receivables		**56,451**	78,264
Prepaid lease payments		**553**	–
Amounts due from customers for contract work		**277,679**	160,424
Amounts due from non-controlling shareholders		**3,092**	4,570
Held-for-trading financial assets		**50**	56
Restricted bank balances		**1,278**	–
Short-term bank deposits		**2,378**	–
Cash held at non-bank financial institutions		**692**	692
Bank balances and cash		**143,528**	134,925
		582,196	518,542

	Notes	31 March 2011 HK$'000	31 March 2010 HK$'000
Current liabilities			
Trade payables	*13*	**74,907**	84,113
Accrued liabilities, deposits received and other payables		**89,980**	69,812
Amounts due to customers for contract work		**9,675**	17,321
Amounts due to non-controlling shareholders		**10,270**	9,806
Amount due to an associate		**29,334**	36,257
Amount due to an investee company		**–**	1,317
Tax payable		**21,279**	13,912
		235,445	232,538
Net current assets		**346,751**	286,004
Total assets less current liabilities		**1,029,555**	952,104
Non-current liabilities			
Convertible notes		**–**	145,919
Deferred income		**–**	4,458
		–	150,377
Net assets		**1,029,555**	801,727
Capital and reserves			
Share capital		**644,368**	529,387
Reserves		**361,999**	227,103
Equity attributable to owners of the Company		**1,006,367**	756,490
Non-controlling interests		**23,188**	45,237
Total equity		**1,029,555**	801,727

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

	Attributable to owners of the Company											
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	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)*						
At 1 October 2009	526,735	516,123	307	148,120	–	–	27,136	7,293	(377,355)	848,359	49,651	898,010
Loss for the period	–	–	–	–	–	–	–	–	(46,404)	(46,404)	(2,366)	(48,770)
Other comprehensive expense for the period	–	–	–	–	–	–	–	(580)	–	(580)	149	(431)
Total comprehensive expense for the period	–	–	–	–	–	–	–	(580)	(46,404)	(46,984)	(2,217)	(49,201)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(2,197)	(2,197)
Recognition of share-based payment expenses	–	–	–	–	–	–	907	–	–	907	–	907
Issue of shares upon exercise of share options	2,652	1,744	–	–	–	–	(1,588)	–	–	2,808	–	2,808
Lapse of share options	–	–	–	–	–	–	(215)	–	215	–	–	–
Release upon cancellation of convertible notes	–	–	–	(60,210)	–	–	–	–	11,610	(48,600)	–	(48,600)
Appropriations	–	–	832	–	–	–	–	–	(832)	–	–	–
At 31 March 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	–	–	–	–	–	–	–	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	644,368	624,541	2,094	–	(1,694)	32,235	39,480	20,658	(355,315)	1,006,367	23,188	1,029,555

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 2011

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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.

During the six months ended 31 March 2010, the reporting period end date of the Group was changed from 30 September to 31 March to align the financial year end date of the Company with the fiscal year end date of the Inland Revenue Department of Hong Kong with the benefit of facilitating timely and efficient financial reporting. Accordingly, the consolidated financial statements for the current period cover the twelve-month period from 1 April 2010 to 31 March 2011. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes covered a six-month period from 1 October 2009 to 31 March 2010 and therefore may not be comparable with amounts shown for the current period.

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 Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvement to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKAS 32 (Amendment)	Classification of Rights Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HK – Int 5	Presentation of Financial Statements –Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the financial statements.

The application of the other new and revised standards, amendments and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[6]
HKFRS 10	Consolidated Financial Statements[6]
HKFRS 11	Joint Arrangements[6]
HKFRS 12	Disclosure of Interests in Other Entities[6]
HKFRS 13	Fair Value Measurement[6]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (2011)	Separate Financial Statements[6]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2011.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

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 accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in 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 recognised 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 recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that 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 will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets 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 does enter into any such transactions in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

HK(IFRIC)-Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of other new and revise standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for leasehold building 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 Hong Kong Financial Reporting Standards 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 proceeds from trading of securities. An analysis of the Group's turnover for the year/period from continuing operations is as follows:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Sales and installment of shallow ground energy utilisation system	**317,843**	154,339
Maintenance services for shallow ground energy utilisation system	**2,760**	6,154
Gross proceeds from trading of securities	**–**	1,830
Dividend income	**1,608**	–
	322,211	162,323

5. SEGMENT INFORMATION

The Group's 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 round energy utilisation system;

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

(c) Other segment – provision and sales of telecommunications network infrastructure solutions and network management solutions.

On 13 September 2010, the Group completed the disposal of its wholly-owned subsidiary, IIN Network Technology Limited and its subsidiaries including the Lisai Group ("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 discounted operations, which are described in more detail in note 9.

Segment revenue and results

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

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy *HK$'000*	**Securities investment and trading** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
REVENUE				
External sales	**320,603**	**1,608**	**–**	**322,211**
Segment profit (loss)	**85,064**	**(5,805)**	**(702)**	**78,557**
Share of results of associates				**371**
Unallocated other income				**6,319**
Unallocated expenses				**(38,986)**
Finance costs				**(7,486)**
Profit before tax (continuing operations)				**38,775**

For the six months ended 31 March 2010 (Restated)

Continuing operations

	Shallow ground energy *HK$'000*	Securities investment and trading *HK$'000*	Others *HK$'000*	Total *HK$'000*
REVENUE				
External sales	160,493	–	–	160,493
Segment profit (loss)	57,952	(5,601)	(529)	51,822
Share of results of associates				214
Unallocated other income				7,907
Unallocated expenses				(9,167)
Finance costs				(11,829)
Profit before tax (continuing operations)				38,947

The accounting policies of the reportable 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, gain on disposal of subsidiaries for the year ended 31 March 2011, certain other income, central administration costs, share-based payments and finance costs. 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 segment:

Segment assets

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Continuing operations:		
Shallow ground energy	**1,005,345**	859,770
Securities investment and trading	**9,064**	21,824
Others	**1,204**	1,382
Total segment assets	**1,015,613**	882,976
Assets relating to discontinued operation	**–**	23,468
Unallocated corporate assets	**249,387**	278,198
Consolidated total assets	**1,265,000**	1,184,642

Segment liabilities

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Continuing operations:		
Shallow ground energy	**170,663**	180,279
Securities investment and trading	**1,557**	24,332
Others	**2,342**	570
Total segment liabilities	**174,562**	205,181
Liabilities relating to discontinued operation	**–**	10,336
Unallocated corporate liabilities	**60,883**	167,398
Consolidated total liabilities	**235,445**	382,915

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

- all assets are allocated to reportable segments other than interests in associates, deferred tax assets, amounts due from non-controlling shareholders, 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 reportable segments other than amounts due to non-controlling shareholders, amount due to an associate, amount due to an investee company, tax payables, convertible notes and unallocated corporate liabilities.

Other segment information

For the year ended 31 March 2011

Continuing operations

	Shallow ground energy *HK$'000*	**Securities investment and trading** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets *(Note)*	**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**
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)**
Interest expenses	**7,486**	**–**	**–**	**7,486**
Income tax expense	**15,004**	**–**	**–**	**15,004**

For the six months ended 31 March 2010 (Restated)

Continuing operations

	Shallow ground energy *HK$'000*	Securities investment and trading *HK$'000*	Others *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to non-current assets *(Note)*	50,967	–	–	50,967
Depreciation and amortisation	13,298	–	440	13,738
Allowance for doubtful debts	9,298	–	–	9,298
Reversal of allowance for doubtful debts	(18,907)	–	–	(18,907)
Gain on disposal of financial assets at fair value through profit or loss	–	(266)	–	(266)
Gain on disposal of available-for-sale investments	–	(13,234)	–	(13,234)
Gain on disposal of subsidiaries	(8,464)	–	–	(8,464)
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	34,998	–	–	34,998
Share of results of associates	(214)	–	–	(214)
Interest income	(143)	–	–	(143)
Interest expenses	11,829	–	–	11,829
Income tax expense	12,618	–	–	12,618

Note: Non-current assets excluded those relating to discontinued operation and excluded goodwill, 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, except for the securities investment and trading segment which are located in Hong Kong.

Information about major customers

The Group did not have customer with whom transactions have exceeded 10% of the Group's aggregate revenue during the year ended 31 March 2011 and the six months ended 31 March 2010.

6. OTHER INCOME

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Continuing operations		
Bank interest income	**439**	143
Government grants *(Note a)*	**1,109**	4,163
Amortisation of deferred income on government grants	**–**	843
Sale of raw materials	**–**	5,824
Compensation received *(Note b)*	**–**	5,446
Imputed interest income on other receivable	**961**	–
Others	**249**	333
	2,758	16,752

Notes:

(a) Government grants were received from the PRC government for the Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to those subsidies.

(b) Compensation was received from the PRC government as relocation compensation due to the implementation of infrastructure work.

7. FINANCE COSTS

	Year ended 31 March 2011 HK$'000	Six months ended 31 March 2010 HK$'000 (Restated)
Continuing operations		
Interest on bank and other borrowings wholly repayable within five years	**–**	798
Imputed interest expense on convertible notes	**7,486**	8,218
Interest paid to an associate	**–**	2,813
	7,486	11,829

8. INCOME TAX EXPENSE

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Continuing operations		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**14,063**	9,318
Under provision in prior years:		
Hong Kong Profits Tax	**–**	899
Deferred tax	**941**	2,401
	15,004	12,618

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 year ended 31 March 2011 and six months ended 31 March 2010.

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, a foreign investment subsidiary was recognised as high technology enterprise on 24 December 2008 and therefore is entitled to a preferential tax rate of 15% for three years, with effective from 1 January 2008.

Since March 2008, Inland Revenue Department ("IRD") has initiated tax enquiries and issued protective profits tax demand note relating to the years of assessment 2000/2001 to 2005/2006 against a subsidiary in the Group. The Group had lodged objections with the IRD and the IRD agreed to hold over the tax claimed completely subject to the said subsidiary in question purchasing tax reserve certificates ("TRCs"). TRCs of an aggregate amount of approximately HK$899,000 were purchased by the Group up to the end of the reporting period and included in other receivables in the consolidated statement of financial position as at 31 March 2011.

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 2011.

The tax expense for the year/period can be reconciled to the profit (loss) per the consolidated income statement as follows:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000* (Restated)
Profit before tax (from continuing operations)	**38,775**	38,947
Tax at the domestic income tax rate	**13,109**	15,468
Under-provision in prior years	**–**	899
Tax effect of share of results of associates	**(15)**	(54)
Tax effect of expenses not deductible for tax purpose	**6,002**	1,525
Tax effect of income not taxable for tax purpose	**(1,447)**	(720)
Utilisation of tax losses previously not recognised	**–**	(3,685)
Income tax on concessionary rate	**(2,645)**	(815)
Tax expense for the year/period (relating to continuing operations)	**15,004**	12,618

Note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

9. DISCONTINUED OPERATION

On 27 August 2010, 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:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Loss of environmental protection operation for the year/period	**(3,369)**	(26,483)
Gain on cancellation of convertible notes	**–**	13,953
Impairment loss on goodwill	**–**	(56,658)
Finance cost	**–**	(5,911)
Gain on disposal of environmental protection operation	**15,901**	–
	12,532	(75,099)

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:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Revenue	**14,016**	18,505
Cost of sales	**(13,424)**	(15,960)
Gross profit	**592**	2,545
Other income	**493**	2,374
Administrative expenses	**(4,454)**	(10,095)
Allowance for doubtful debts	**–**	(2,269)
Gain on disposal of a subsidiary	**–**	4,162
Impairment loss on property, plant and equipment	**–**	(23,178)
Loss before tax	**(3,369)**	(26,461)
Income tax expense	**–**	(22)
Loss for the year/period	**(3,369)**	(26,483)

Loss for the year/period from discontinued operation including the following:

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Bank interest income	**(7)**	(60)
Amortisation of deferred income on government grants	**(486)**	(652)
Cost of inventories sold	**13,424**	15,960
Depreciation of property, plant and equipment	**461**	620
Staff costs	**800**	1,713
Research costs (included in administrative expenses)	**1,886**	–
Loss on disposal of property, plant and equipment	**–**	1,320
Lease payments under operating lease in respect of land and building	**410**	527

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 (used in) operating activities	**1,049**	(34,567)
Net cash (used in) generated from investing activities	**(844)**	24,021
Net cash from financing activities	**–**	–
Net cash inflow (outflow)	**205**	(10,546)

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2011, nor has any dividend been proposed since the end of the reporting period (six months ended 31 March 2010: Nil).

11. EARNINGS/(LOSS) PER SHARE

From continuing and discontinued operation

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

	Year ended 31 March 2011 *HK$'000*	Six months ended 31 March 2010 *HK$'000*
Earnings (loss)		
Profit (loss) for the year/period attributable to owners of the Company and for the purpose of basic and diluted earnings (loss) per share	**34,413**	(46,404)

	Year ended 31 March 2011 *'000*	Six months ended 31 March 2010 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/loss per share	**1,828,837**	1,688,792
Effect of dilutive potential ordinary shares:		
Share options	**60,401**	48,682
Weighted average number of ordinary shares for the purpose of diluted earnings/loss per share	**1,889,238**	1,737,474

For the six months ended 31 March 2010, the diluted loss per share is the same as the basic loss per share as the exercise of the Company's share option and conversion of the Company's convertible notes would result in a decrease in basic loss per share.

From continuing operations

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

	Year ended 31 March 2011	Six months ended 31 March 2010
	HK$'000	*HK$'000*
Profit (loss) for the year/period attributable to owners of the Company and for the purpose of basic earnings (loss) per share	**34,413**	(46,404)
Less: profit (loss) for the year/period from discontinued operation	**12,532**	(75,099)
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**21,881**	28,695

	Year ended 31 March 2011	Six months ended 31 March 2010
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,828,837**	1,688,792
Effect of dilutive potential ordinary shares:		
Share options	**60,401**	48,682
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,889,238**	1,737,474

For the six months ended 31 March 2010, the computation of diluted earnings per share from continuing operations does not assume the conversion of the Company's convertible notes since their exercise would result in an increase in earnings per share.

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 (six months ended 31 March 2010: basic loss per share of HK$4.45). The diluted earnings per share for the discontinued operations is HK$0.66 cents per share for the year ended 31 March 2011. For the six months ended 31 March 2010, the diluted loss per share is the same as the basic loss per share as the exercise of the Company's share option and the conversion of the Company's convertible notes would result in a decrease in basic loss per share.

12. TRADE AND RETENTION RECEIVABLES

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Trade and retention receivables	**80,044**	82,023
Less: allowance for doubtful debts	**(8,568)**	(13,504)
	71,476	68,519

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 and retention receivables net of allowance for doubtful debts presented based on invoice date at the end of the reporting period.

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Within 90 days	**39,791**	24,218
91 to 180 days	**3,923**	11,452
181 to 365 days	**20,534**	32,797
Over 365 days	**7,228**	52
	71,476	68,519

Included in the Group's trade and retention receivable balances were debtors with aggregate carrying amount of approximately HK$7,228,000 (31 March 2010: HK$8,426,000) 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 did not hold any collateral over these balances.

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

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
181 to 365 days	**–**	8,374
Over 365 days	**7,228**	52
	7,228	8,426

The Group's neither past due nor impaired trade and retention receivables mainly represented sales made to creditworthy customers for whom there was no recent history of default. The Group did not hold any collateral over there balances.

Allowance in respect of trade and retention 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 or retention receivables balance directly. The movement in the allowance for doubtful debts is as follows:

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Balance at beginning of the year/period	**13,504**	22,942
Exchange adjustments	**555**	171
Impairment losses recognised on receivables	**190**	9,298
Impairment losses reversed	**(3,955)**	(18,907)
Disposal of a subsidiary	**(593)**	–
Deemed disposal of a subsidiary	**(1,133)**	–
Balance at end of the year/period	**8,568**	13,504

Included in the allowance for trade and retention receivables were individually impaired trade and retention receivables with an aggregate balance of approximately HK$8,568,000 (31 March 2010: HK$13,504,000) which have been placed in severe financial difficulties. The Group did not hold any collateral over these balances.

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.

	31 March 2011	31 March 2010
	HK$'000	*HK$'000*
Within 90 days	**17,301**	14,001
91 to 180 days	**7,612**	20,318
181 to 365 days	**14,709**	9,318
Over 365 days	**35,285**	40,476
	74,907	84,113

The average credit period on purchases of goods is from 90 to 180 days.

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 2011.

Basis for qualified opinion

Corresponding figures and Gain on disposal of subsidiaries

As previously explained in our report dated 29 June 2010 on the Group's consolidated financial statements for the six months ended 31 March 2010, due to the scope limitations in relation to 湖南衡興環保科技開發有限公司 ("Hengxing"), being one of the subsidiaries of Shenzhen Lisai Industrial Development Company Limited ("Shenzhen Lisai") as at the date the Group acquired Shenzhen Lidesui Huanbao Jishu Company Limited and Shenzhen Lisai Gardens Luhua Company Limited which in turn together held the entire equity interest of Shenzhen Lisai (collectively refer to as the "Lisai Group"), we were unable to satisfy ourselves as to the accuracy of the carrying value of net assets of Hengxing initially included in the calculation of goodwill arising from acquisition of Lisai Group on 7 November 2007, the carrying value of Hengxing at the date of disposal subsequently on 27 August 2009, and the carrying value of goodwill arising from acquisition of Lisai Group and the carrying value of goodwill as at the date of disposal of Hengxing, stated in the Group's consolidated financial statements. We qualified our opinion on the Group's consolidated financial statements for the six months ended 31 March 2010 in respect of this scope limitation accordingly.

Any adjustments that might have been found necessary in respect of the above would have had a consequential impact on the Group's results for the six months ended 31 March 2010 and the related disclosures made in respect of corresponding figures for the six months ended 31 March 2010 in the consolidated financial statements for the year ended 31 March 2011.

As detailed in note 40(a) to the consolidated financial statements, the Group disposed of its entire interest in one of its wholly-owned subsidiaries IIN Network Technology Limited and its subsidiaries including the Lisai Group ("IIN Network Technology Group") to an independent third party during the year ended 31 March 2011. The Group recorded a gain on disposal of subsidiaries of approximately HK$15,901,000 for the year ended 31 March 2011.

With the impact of the scope limitations in relation to Hengxing mentioned above, we were unable to satisfy ourselves as to the accuracy of the carrying value of goodwill as of the date of disposal of IIN Network Technology Group during the year ended 31 March 2011 and as to whether the amount of gain on disposal of subsidiaries has been accurately recorded in the consolidated income statement for the year ended 31 March 2011. Any adjustments to the figure would have a consequential effect on the profit of the Group and the related disclosures for the year ended 31 March 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The following table provides brief summary of our Company's financial operations. For more detailed information, please refer to the consolidated financial statements for the year ended 31 March 2011 and 2010.

	(12 months) From 1 April 2010 to 31 March 2011		(6 months) From 1 October 2009 to 31 March 2010	
	HK$'000	***%***	*HK$'000*	*%*
Continuing operations				
Turnover:				
– Sales and installation of shallow ground energy utilisation system	**317,843**	**94**	154,339	85
– Maintenance services for shallow ground energy utilisation system	**2,760**	**1**	6,154	4
– Gross proceeds from trading of securities	**–**	**–**	1,830	1
– Dividend income	**1,608**	**1**	–	–
Total turnover from continuing operations	**322,211**	**96**	162,323	90
Discontinued operations				
Turnover:				
– Sewage and marsh gas treatment income	**14,016**	**4**	18,505	10
Total turnover from continuing and discontinued operations	**336,227**	**100**	180,828	100

Turnover

Total turnover from continuing operations for the year were approximately HK$322 million, as compared with HK$162 million for the six months ended 31 March 2010. The turnover of approximately HK$14 million and HK$18.5 million from discontinued operations for the year ended 31 March 2011 and six months ended 31 March 2010 respectively, was contributed by environmental protection segment, which was disposed of by the Group in August 2010.

During the period under review, the Company recorded net profit of approximately HK$36 million compared with a loss of approximately HK$49 million for the six months ended 31 March 2010. The increase in net profit during 2011 from 2010 was primarily due to the impairment loss on goodwill and property, plant and equipment in 2010.

Gross Profit Margin

Gross profit from the Group's continuing operations for the year was approximately HK$125 million or, as a percentage of revenue, 38.9% (31 March 2010: HK$43 million, 26.5% of revenue). The increase was mainly due to higher profit margin from shallow ground energy utilisation.

Other Income

Other income are non-recurring in nature and representing 1% and 10% of total turnover from continuing operations for the year ended 31 March 2011 and six months ended 31 March 2010, respectively.

Further information regarding the Company's other income may be referred to note 6 "Other Income" of this announcement.

Selling & Distribution Expenses and Administrative Expense

	(12 months period) 31 March 2011		(6 months period) 31 March 2010 (Restated)	
	HK$'000	***% of turnover***	*HK$'000*	*% of turnover*
Share-based payment expense	**22,150**	**6.9**	907	0.6
Lease payments under operating leases in respect of land and buildings	**7,151**	**2.2**	3,304	2.0
Director emoluments	**17,239**	**5.4**	3,480	2.1

Total selling and distribution expenses were approximately HK$11 million and HK$6 million for the year ended 31 March 2011 and six months ended 31 March 2010, respectively.

Total administrative expenses were approximately HK$64 million and HK$32 million, or as a percentage of turnover, remain unchanged at 20% for both year ended 31 March 2011 and six months ended 31 March 2010.

Segmental Information

The Company reportable operating segment consists of shallow ground energy utilisation, securities investment and trading segment.

The Company's environmental protection segments were reclassified as discontinued operations with the disposal of environmental protection segment in August 2010.

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

Financial Resources and Liquidity

	(12 months period) **31 March 2011** ***HK$'000***	(6 months period) 31 March 2010 *HK$'000*
Net cash inflow from operating activities	**6,499**	48,731
Net cash outflow from investing activities	**(74,359)**	(30,008)
Net cash inflow from financing activities	**70,757**	3,045

Our principal sources of liquidity have been derived from cash from operations and the issuance of ordinary shares.

Net cash inflow from operating activities was approximately HK$7 million for the year ended 31 March 2011 compared to approximately HK$49 million for the six months ended 31 March 2010. The changes in cash provided by operating activities are principally due to timing of payment received for account receivable, the timing of payment for account payable and income taxes paid.

Cash used in investing activities was approximately HK$74 million and HK$30 million for the year ended 31 March 2011 and six months ended 31 March 2010, respectively. Cash used in investing activities consist primarily of cash used for fixed asset additions for all period presented, net of cash received from disposal of available-for sale shares, disposal of fixed assets and disposal of subsidiaries.

Cash provided by financing activities was approximately HK$71 million and HK$3 million for the year ended 31 March 2011 and six months ended 31 March 2010, respectively.

Charges Of Group Assets

As at 31 March 2011, no group assets have been charged.

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 2011, the Company had no foreign exchange contracts.

Gearing Ratio

The gearing ratio of the Company, based on total borrowings (including interest-bearing bank loans and convertible notes) to the equity (including all capital and reserves) of the Company, decreased to 0% for the period under review (2010: 19%). The lower gearing ratio is largely due to the increase in equity attributable to owners of the Company as a result of the share subscription and transfer of convertible notes during the Period under review.

Employees

As at 31 March 2011, the Company employed approximately 500 people (2010: approximately 600). The decrease in the number of employees compared to 2010 was due to the disposal of environmental protection segment.

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.

Based upon the geographic diversification of these employees, we believe any risk of loss from employee actions would not be material to the conduct of our operations taken as a whole.

Share Option Schemes

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. During the Period under review, 47,700,000 share options were exercised at the price of HK$0.3304 per share option for an aggregate gross proceeds of approximately HK$16 million.

Contingent Liabilities

As at 31 March 2011, 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 of Directors does not recommend the payment of a final dividend for the year under review (2010: Nil).

Capital Structure

	(12 months period) 31 March 2011 *HK$'000*	(6 months period) 31 March 2010 *HK$'000* (restated)
Convertible notes	**–**	145,919
Imputed Interest	**7,486**	8,218

The convertible notes represent the liability component of the outstanding convertible notes which were issued to the vendor by the Company in 2009 as part of the consideration to acquire shallow ground energy segment. The decrease in the liability component of convertible notes was due to the transfer in September 2010. For more details of the transfer, please refer to the Company announcement published on the GEM website dated 14 September 2010.

The imputed interest for the Period under review of convertible notes amounted to approximately HK$7 million (2010: HK$8 million).

On 14 February 2011, the Board proposed capital reorganization and was approved by the shareholders of the Company on 23 March 2011 EGM. For more details of the capital reorganization, please refer to the Company announcement dated 14 and 28 February 2011 and poll results of the EGM published on the GEM website on 23 March 2011.

Capital Commitment and Substantial Investments

Details of capital commitment are set out in note 45 to the consolidated financial statements of the latest Company's Annual Report for the year ended 31 March 2011.

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 in the future. 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. In our normal course of business, the Company evaluates properties for potential acquisition or disposals which, if appropriate, would be presented to the Board for consideration. The Company will continue to explore new opportunities in energy-related projects and look for potential in PRC and overseas.

Major Acquisitions and Disposals

Details of major disposal transaction are set out in note 40 to the consolidated financial statements of the latest Company's Annual Report for the year ended 31 March 2011.

BUSINESS REVIEW AND OUTLOOK

With rational and practical adjustments and efforts, the Group currently has become a professional new energy group focusing on scientific research and promotion of using ground source energy as an alternative energy for heating (cooling).

The business model of the Group include:

1. Production of patent ground source energy collection products and commissioned processing of the relevant patent products;

2. Design of ground source energy utilisation system and equipment integration, sales and installation centering on patent products;

3. Energy contracting management for ground source energy heat pump system;

4. Construction and development of self-built demonstration projects with application of ground source energy;

5. Construction and development of ground source energy heating/cooling centre for infrastructures of a city.

Ever Source Scientific and Technology Development Co., Ltd. ("HYY") is the inventor of a series of international ground source energy utilisation invention patent technology which is used by the Group. Having been engaged in the development and utilisation of ground source energy for nearly a decade, HYY's market shares grew at a steady pace. Based on its ground (heat) energy collection technology through "single-well circulation heat exchange" which has attained proprietary intellectual property rights and international invention patent, HYY offers optimised integration of ground source energy utilisation system in combination with globally advanced heat pump technology. HYY is the only domestic company which, in the capacity of designer of ground source energy collection system, cooperates with construction companies in promotion of HYY ground (heat) source energy heat pump environmental system.

Compared with other clean energies, the utilisation of shallow ground energy has prominent advantages as it can be used as an alternative energy for heating and it may operate at costs equivalent to those of conventional energy. On 17 October 2010, 17 renowned Chinese experts majoring in heating and ventilating, geological and water affairs hosted the experts review meeting for HYY projects operating for over 7 years in Beijing, which has justified the above conclusion.

In the past ten years, five experts review meetings has been hosted to evaluate how the "Single-well Circulation" exchange technology for ground source energy collection applied to ground source energy heat pump environmental system will protect water resources. The outcome of the experts reviews has confirmed that "this technology offers a better solution to problems such as sand migration, uneven settlement of ground surface and water loss. It will not destroy the natural distribution of underground water, and therefore has prominent advantages over traditional groundwater source heat pump technology. Extraction of shallow ground energy is achieved by a soil source heat exchanger with water as media rather than a water-collecting device. Such extraction does not have any impact on the quality of underground water, as evidenced by no notable changes in each water quality index."

The positive affirmation in respect of the "Single-well Circulation" technology given by the experts review meetings and the proven success in the implementation of such technology for 8 million square meters of building area will provide positive impetus for the future development of our substitute energy business.

Given the unique advantages of Xianyuwan (仙浴灣鎮) of Dalian where our ground source energy demonstration projects are located, the 12th National Games Organizing Committee and the 12th Sports committee of Dalian City have decided to construct a venue for yachting of 12th National Sports Game to be held in 2013 at the coastal area of Xianyuwan. The construction of this project and enhancement of comprehensive improvement by the local government will drive and facilitate the overall development and construction of the area. This will highlight the demonstration significance of utilization of ground source energy as an alternative energy for heating while facilitating the realization of the development object of the area, that is to construct it into a new charming coastal area driven by emerging industries such as sports and tourism, establishing a brand of "South for Sanya and North for Xianyuwan".

According to the relevant agreements entered into with Wafangdian municipal government and the development plan of the coastal economic area in Wafangdian City, the first class development work covering an area of 22.4 square kilometers of Xianyuwan is separated into five plots. The heating/cooling station using ground source energy for all the infrastructures of the city will first commence construction on plot A, covering an area of 4.12 square kilometers.

With the scientific research on utilisation of ground source energy as an alternative energy for heating and our core business model in full swing, as well as our innovative, sound and sustainable profit model, we believe that our substitute energy business will achieve substantial and stable growth, therefore further improve our operating results.

CORPORATE GOVERNANCE

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 Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2011, except that:

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the Board. In considering the nomination of a new director or where vacancies on the Board exist, the Board will take into account the skills, qualification, working experience, professional knowledge, leadership and personal integrity of the candidates. During the period under review, no directors was appointed.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Ms. Chan Man Kuen Laura and Mr. Chow Wan Hoi Paul.

The Audit Committee has reviewed the Group's audited final results for the year ended 31 March 2011 and has provided advice and comments thereon. The Audit Committee held four 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will for the purpose of ascertaining right of shareholders to attend and vote at the forthcoming annual general meeting be closed from Tuesday, 9 August 2011 to Wednesday, 10 August 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting to be held on Wednesday, 10 August 2011, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 8 August 2011.

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, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

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

Hong Kong, 29 June 2011