



中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**FINAL RESULT ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014**

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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

FINAL RESULTS

The board of directors (“Directors”) of China Ground Source Energy Industry Group Limited (the “Company”) here by announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Non-current Assets			
Property, plant and equipment		287,654	233,434
Investment properties		383,961	308,776
Deposit paid for acquisition of land use rights		56,110	244,377
Goodwill		465,760	445,850
Intangible assets		–	–
Interests in associates		24,362	57,570
Available-for-sale investments		100,974	512
Prepayments		16,844	20,841
Deferred tax assets		18,110	22,262
		<u>1,353,775</u>	<u>1,333,622</u>
Current Assets			
Inventories		29,947	17,166
Properties held for sale under development		104,729	106,005
Trade and retention receivables	10	168,266	129,237
Prepayments, deposits and other receivables		141,525	73,022
Consideration paid for the acquisition of a subsidiary		–	62,759
Refundable deposit paid for setting up of a joint venture		–	38,424
Amounts due from customers for contract work		343,659	389,506
Amount due from an associate		15,130	2,323
Amounts due from related companies		728	–
Held-for-trading financial assets		3,872	40
Available-for-sale investments		124,930	–
Cash held at non-bank financial institutions		3,051	1,262
Short-term bank deposits		19,421	484,763
Bank balances and cash		309,814	57,167
		<u>1,265,072</u>	<u>1,361,674</u>
Current Liabilities			
Trade payables	11	136,200	125,463
Accrued liabilities, deposits received and other payables		152,322	169,946
Amounts due to customers for contract work		12,311	18,956
Amounts due to related companies		–	560
Amounts due to associates		12,446	9,279
Tax payable		115,477	98,691
		<u>428,756</u>	<u>422,895</u>

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Net Current Assets	<u>836,316</u>	<u>938,779</u>
Total Assets less Current Liabilities	<u>2,190,091</u>	<u>2,272,401</u>
Non-Current Liabilities		
Receipt in advance	9,446	11,633
Deferred income	8,525	7,741
Borrowings	499,721	512,321
Deferred tax liabilities	<u>62,868</u>	<u>60,136</u>
	<u>580,560</u>	<u>591,831</u>
Net Assets	<u><u>1,609,531</u></u>	<u><u>1,680,570</u></u>
Capital and Reserves		
Share capital	226,170	226,053
Reserves	<u>1,342,429</u>	<u>1,416,559</u>
Equity attributable to owners of the Company	<u>1,568,599</u>	<u>1,642,612</u>
Non-controlling interests	<u>40,932</u>	<u>37,958</u>
Total Equity	<u><u>1,609,531</u></u>	<u><u>1,680,570</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

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

Attributable to owners of the Company

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

Notes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL AND BASIS OF PREPARATION

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

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

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

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

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

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

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

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

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

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

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

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

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

HK(IFRIC) – Int 21 Levies

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

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

New and revised HKFRSs issued but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

² Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

⁵ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

- (a) Shallow ground source energy segment – provision, installation and maintenance of shallow ground source energy utilisation system;
- (b) Securities investment and trading segment – trading of investment securities; and
- (c) Properties investment and development segment – investment in properties for its potential rental income and sales.

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

Segment revenue and results

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

For the year ended 31 December 2014

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

For the year ended 31 December 2013

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

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

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

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

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

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

Other segment information

For the year ended 31 December 2014

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

For the year ended 31 December 2013

	Shallow ground source energy HK\$'000	Securities investment and trading HK\$'000	Properties investment and development HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (<i>Note</i>)	194,348	–	762	195,110
Development costs paid for investment properties under construction	–	–	126,115	126,115
Impairment loss recognised in respect of trade receivables	11,466	–	–	11,466
Fair-value changes on held-for-trading financial assets	–	5	–	5
Reversal of impairment loss recognised in respect of trade receivables in prior years	(9,764)	–	–	(9,764)
Depreciation	3,378	–	1,149	4,527
Fair-value changes on investment properties	–	–	(72,896)	(72,896)
Imputed interest income on receipt in advance	–	–	(6,837)	(6,837)
Imputed interest expense on receipt in advance	–	–	5,440	5,440
Imputed interest expense on prepayments	404	–	5,007	5,411
Loss on refunds of receipt in advance	–	–	16,385	16,385
Gain on disposal of a portion of investment properties	–	–	(188,733)	(188,733)
Write-down of inventories	2,016	–	–	2,016

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

Interests in associates	57,570	–	–	57,570
Share of results of associates	6,237	–	–	6,237
Interest income	(2,074)	–	–	(2,074)
Interest expenses	10,223	–	–	10,223
Income tax expense	7,689	–	48,260	55,949

Note:

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

Geographical information

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

Information about major customers

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Customer A ¹	N/A ²	75,772
Customer B ¹	N/A ²	41,045

¹ Revenue from shallow ground source energy business.

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

5. OTHER INCOME

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

Notes:

- (a) Included in the amount of government grants recognised during the year ended 31 December 2014, approximately HK\$45,461,000 (2013: Nil) were received in respect of certain research projects of the Group, and the Group fulfill the relevant granting criteria which immediately recognised as other income, and no government grants (2013: HK\$1,314,000) were recognised as deferred income utilised during the year.
- (b) During the year ended 31 December 2014, a supplier incorporated in the PRC was liquidated, thus the related debts being due were waived.

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

8. DIVIDENDS

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

Final dividend for the year ended 31 December 2014

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

Final dividend for the year ended 31 December 2013

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

9. (LOSS) EARNINGS PER SHARE

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

	2014 HK\$'000	2013 HK\$'000
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>(53,506)</u>	<u>101,810</u>
	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	2,903,468	2,902,827
Effect of dilutive potential ordinary shares: Share options (<i>Note</i>)	<u>—</u>	<u>8,517</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,903,468</u>	<u>2,911,344</u>

Note:

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

10. TRADE AND RETENTION RECEIVABLES

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

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

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

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

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

	2014 HK\$'000	2013 <i>HK\$'000</i>
Over 120 days	42,064	38,424
Over 365 days	37,194	18,046
	79,258	56,470

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

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

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

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

11. TRADE PAYABLES

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

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

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

12. EVENTS AFTER THE REPORTING PERIOD

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

Up to the date of this announcement, the acquisition is yet to be completed.

FINANCIAL REVIEW

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

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2014 and the year ended 31 December 2013.

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

OPERATION RESULTS

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

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

GROSS PROFIT MARGIN

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

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

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

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

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

SEGMENTAL INFORMATION

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

Shallow Ground Source Energy

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

- (1) licensing of patented products and proprietary technology;
- (2) contract management of shallow ground source energy as heating (cooling) energy;
- (3) construction and operation of dispersed ground source energy station for cooling and heating;
- (4) sales and installation of HYY ground source energy heat pump environment system; and
- (5) ground source energy for integrated heating and cooling industrial park.

Securities investment and trading

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

Properties investment and development

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

Further information regarding the Group's operating segments may be referred to note 4 "Segment Information" of this announcement.

FINANCIAL RESOURCES AND LIQUIDITY

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

CHARGES OF GROUP ASSETS

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

GEARING RATIO

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

EMPLOYEES

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

SHARE OPTION SCHEMES

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

CONTINGENT LIABILITIES

As at 31 December 2014, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2014 (2013: HK0.5 cents per share).

CAPITAL STRUCTURE

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

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

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 42 to the consolidated financial statements of the Company's Annual Report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

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

MAJOR ACQUISITIONS AND DISPOSALS

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

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

Save as the disclosed above, other acquisitions and disposals during the year are set out in note 41 to the consolidated financial statements of the Company’s Annual Report.

BUSINESS REVIEW AND OUTLOOK

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

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

I. Business Review

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

Currently, building areas in China exceed 50 billion m². During 2004-2013, the area of increased constructions was about 27.8 billion m². It is estimated that additional increase of building areas in the upcoming 5 years will reach to 10 billion. Supposing 50% of building areas requires heating, there will be 25 billion m² heating areas in China. Supposing 5% of existing buildings and 40% of the future additional buildings uses shallow ground source energy to acquire combustion-free heating, areas heated by shallow ground source energy can reach to 3.25 billion m² and its potential market stands at RMB1 trillion. Compared with heating with electrical boilers, heating with shallow ground source energy will realize an annual save of 316.875 billion kw/h electricity and 110.9063 million tons standard coal equivalent (SCE), and an annual reduction of 277.2658 million tons CO₂, 4.8017 million tons particulates, 2.6396 million tons SO₂ and 1.9194 million tons NO_x. It equals to a virtue power plant with capacity of 188.5GW and saves investment capital of RMB747.5 billion yuans in fire power plants. In 25-year accumulative statistics, heating with shallow ground source energy outstands heating with electrical boiler by realizing better economic and social performances, as it registers a save of electricity by 7.92 trillion kw/h and 2.77 billion tons SCE, and reduction of CO₂ by 6.93 billion tons, particulates by 120 million tons, SO₂ by 65.99 million tons and NO_x by 47.985 million tons.

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

- (1) The single-well energy collection technology as an original technology is becoming more and more sophisticated. As early as 2013, the National Development and Reform Committee (NDRC) submitted a report to Li Keqiang (then the Vice Premier) and Wang Qishan (then Member of the Standing Committee of the Political Bureau) on how to promote development and application of the single-well shallow ground source energy collection system (NDRC-NO. 2013-161). Up to now, building areas heated by shallow ground source energy collected via the original technology of single-well system and the imported technology of buried pipe system has reached to nearly 100 million m².

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

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

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

Shallow ground source energy (under 25°C) being a ubiquitous, renewable and recyclable natural resource is very different from traditional deep geothermal energy (above 25°C). The shallow geo-energy contained within 110 meters underground in land rock and soil (excluding those in waters and seas) is a result of continuous intake of heat from the earth's core and the sun, with its total reserve going to over 1000 times more than that is needed for heating all the existing buildings of 50 billion m².

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

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

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

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

In north China, Dalian as a compulsory area required for heating in winters by Chinese government is located as the northern industrial base for the Group. By now, the Dalian Ground Energy Heating Company has been set up together with a distributive station for ground source energy heating and cooling with a capacity of 900MW. The government of the Jinzhou New Development Zone has authorized the Group with exclusive rights in providing heating, cooling and domestic hot water for the Xiaojiaowan International Business District which takes up 20.4 km² land area and boosts 15 million m² floorages. This project is the very first city-wide heat service project that purely relies on shallow ground source energy as substitute energy for heating. It is therefore going to be established as a “National – level Demonstration Base of Heating with Ground Source Energy”.

In South China, the Group locates its industrial base in the city of Mianyang known as a scientific city of China and a southern city with cold winters and hot summers. While constructing a 300,000 m² demonstration area for ground source energy heating and cooling, the industrial base also fully utilizes its local advantages in science, technologies and manufacturing industry to produce the integrated devices for heating and cooling invented by CGSE. It also stands as a production and processing base specialized in manufacturing and market promotion of the Ground Energy Heating Devices for rural household independent heating.

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

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

- 1) Three ways: areas along major air ways, express railways, and high-speed express way;
 - 2) One river: areas along the Yangzi River with cold winter and hot summer;
 - 3) One upstream: areas in the upstream of the Yellow River that is sensitive in water resource conservation.
3. **CGSE has set up after-sale service and experience demonstration centers for shallow ground source energy heating (cooling) systems, started innovative engineering for regional decision-makers, and launched the marketing strategy of smart and green heating ideology.**
4. **CGSE has been improving its technology systems and promoting development of the emerging industry. Efforts have been strengthened to fully tap the advantages of the modern business modality based on internet, in order to better saturate the industrial need for effective products in providing integrated heating and cooling with ground source energy.**
- 1) The mobile internet platform of the Group has entered into test operation stage. Formal operation will start on May 3rd. By then, renewal of web news, interaction through mobile terminals and project management will all be carried out via this mobile platform.
 - 2) A series of key products have been developed to promote growth of integrated heating and cooling industry. (see the following tables for detail)

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

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

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

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

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

Table 3: Independent Heating Devices*(1) Complete Modular Products of Ground Energy Heating Devices*

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

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

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

(3) Ground Energy Heat Pump Boiler

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

(4) *Ground Energy Collection Devices*

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

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

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

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

CORPORATE GOVERNANCE

During the year ended 31 December 2014, the Company has complied with the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 15 of the GEM Listing Rules, except for the deviations as follows:

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

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

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

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

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Zhang Honghai and Mr. Wu Desheng.

The Audit Committee has reviewed the Group’s audited final results for the year ended 31 December 2014 and has provided advice and comments thereon.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on the preliminary announcement.

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.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on 12 May 2015. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the AGM, the register of members of the Company will be closed from 11 May 2015 to 12 May 2015 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 8 May 2015.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

By Order of the Board of
China Ground Source Energy Industry Group Limited
Zheng Qiyu
Chairman

Hong Kong, 23 March 2015

As at the date of this announcement, the Board comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Mr. Zhao Youmin and Mr. Daiqi as non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai as independent non-executive Directors.