



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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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.

HIGHLIGHTS

Revenue for the six months ended 30 June 2017 (the “Review Period”) amounted to approximately HK\$242,460,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,608,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and for the six months ended 30 June 2016.

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow ground source energy	137,036	46,706	234,904	180,699
– Properties investment and development	3,817	4,969	7,556	8,644
Total revenue	140,853	51,675	242,460	189,343
(Loss) profit for the period	(242)	(258)	2,608	2,178
Profit attributable to owners of the Company	1,961	1,735	6,060	4,571

During the Review Period, the Group’s revenue amounted to approximately HK\$234,904,000 which was contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$180,699,000 for the corresponding period last year. The revenue increased by approximately HK\$53,117,000 as compared with that of corresponding period last year. The Group’s gross profit margin increased from 35.7% in last corresponding period to 37.6% in the current period, it was mainly attributable to the fact that the Group strengthened the cost control measures, such as the projects independent accounting and budget implementation etc. Thus, the overall gross profit margin of the Group had increased. Loss on uncertainty in respect of collectability of amounts due from customers for contract work amounted to HK\$13,286,000 was included in the cost of sales.

Other income decreased from approximately HK\$40,509,000 in the corresponding period last year to approximately HK\$3,759,000 for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in one-off government incentives for development of the integration of heating and cooling emerging industry for the Review Period.

Selling and distribution expenses amounted to approximately HK\$12,322,000 and HK\$13,509,000 for the six months ended 30 June 2017 and 2016 respectively. The selling and distribution expenses in the Review Period decreased as compared with the corresponding period last year due to the promotional and marketing activities of the relevant projects of the Group decreased during the Review Period.

During the Review Period, administrative expenses decreased by approximately HK\$6,133,000, or 10.5% as compared with that of six months ended 30 June 2016. Administrative expenses decreased was mainly attributable to the effective control on the expenses, hence the administrative expenses decreased during the period.

Finance costs amounted to HK\$17,057,000 for the six months ended 30 June 2017 as compared with approximately HK\$18,699,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Profit for the Review Period (for the six months ended 30 June 2017) was approximately HK\$2,608,000, whereas it was HK\$2,178,000 for the corresponding period in last year.

Order Book

As at 30 June 2017, the Group has contracts on hand of approximately HK\$777,060,000.

Investment Properties

The Group's investment properties as at 30 June 2017 were valued at HK\$565,845,000. An increase in fair value of investment properties of approximately HK\$16,883,000 (2016: decrease of HK\$5,845,000) was recognised directly in profit or loss by the Group during the Review Period.

Liquidity, Capital Structure and Gearing Ratio

Net current assets of the Group as at 30 June 2017 was approximately HK\$342,048,000 (31 December 2016: approximately HK\$362,344,000). As at 30 June 2017, the Group had cash and bank balances of approximately HK\$150,603,000 (31 December 2016: approximately HK\$70,119,000). Cash and bank balance shown on the statement of financial position include funds available for general corporate purposes.

As at 30 June 2017, the authorised share capital of the Company was US\$160,000,000 divided into 16,000,000,000 ordinary shares of US\$0.01 each and the issued share capital was 2,876,375,117 ordinary shares of US\$0.01 each.

Non-controlling interests amounted to approximately HK\$42,768,000 which mainly represents the interests attributable to non-controlling shareholders of the Group's subsidiaries in the PRC.

The Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement.

The gearing ratio of the Group was maintained at 32.0% as at 30 June 2017 (31 December 2016: 32.0%).

Charges on asset

As at 30 June 2017, no Group's asset has been charged.

Treasury Policies

The Group continues to adopt a conservative treasury policy with all bank deposits being kept in either Hong Kong dollars, or in local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

Employees

As at 30 June 2017, the Group has approximately 600 employees in total (31 December 2016: approximately 650). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

BUSINESS REVIEW AND OUTLOOK

The Group has always focused on the industrialization development of the original technology, promoting the use of the renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy for northern regions. The Group is a service provider of clean, efficient and intelligent heating system characterized by provision of heating, cooling and domestic hot water (optional), combustion-free and zero-emission in the using region.

In the new era, the northern heating areas using renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy has been widely used in the cold and extreme cold areas. The Group's original-developed single-well heat exchange ground source energy collection technology featured with secured, efficient, space-saving and economical has been realized its industrialization development which can enhance the designability and broaden the applicability for the promotion of utilizing shallow ground source energy.

Golden autumn in October, Beijing's "APEC Blue" and "Parade" were the result of reduction of combustion and emissions in the region. "Electricity to coal" for winter heating is the effective measures to tackle the haze problem by Beijing-Tianjin-Hebei today.

Utilizing the renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy for northern regions makes electricity replacing coal (equivalent to 35% of electricity heating and 25% power consumption) to be sustainable in development. It also combines heating and cooling in the new era to become the emerging industry of integrated heating and cooling with ground source energy for regional heating that are combustion-free and zero-emission.

Utilizing the renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy for northern regions has commenced a new era, the northern heating energy 3.0 which will have a profound impact to our country's graded utilization of energy, the ecological environment protection, harmony between human and nature:

1. High efficient electricity for coal is the most rational way of energy utilization in northern heating:

Electricity generated at the energy origin will achieve the lowest cost of environmental governance. Electricity transmission is mature, stable and reliable. In the service region, using electricity, the cleanest energy, to drive the heat pump for transmission of the renewable shallow ground source energy with equivalent in energy grading and parallel temperature for achieving coal to electricity which is the clean, efficient and intelligent heating featuring with combustion-free and zero-emission in the using region.

2. In the new era, the northern heating has entered the 3.0 era of heating energy:

Following 1.0 era of heating energy [1.0 era of heating energy: combustion of primary energies (heat guarantee mainly for indoor); 2.0 era of heating energy: heating complemented by electric power as a secondary energy (for both indoor and outdoor environment)], the northern heating has entered into 3.0 era of heating energy using renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy (combustion-free and zero-emission in the using region).

3. 3.0 era of heating energy makes the economic and social benefits reformed by the energy supply side and demand side is significant:

In the demand side, using the stable renewable shallow ground source energy as alternative heating energy which is equal to the actual power supply by construction of two simulated power plants on the energy supply side and, at the same time, the result for reducing combustion and emissions is extremely obvious. Compared with the electric heating in the demand side which can reduce 75% of the operating costs for users as well as providing heating, cooling and domestic hot water (optional), greatly improving the quality of life in the northern heating areas. The government can save huge amount of environmental governance, energy transportation and storage costs.

4. The use of renewable energy to achieve the nearest stable supply:

The national heating energy consumption accounts for more than 10% of the total energy consumption, assuming the realization of fully using renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy in one day, renewable heating energy can contribute more than 6% of the total energy consumption of P.R. China.

5. The use of shallow ground source energy as the substitute heating energy for northern regions to achieve northern heating by the simple operating principle of the ground source heat pump system:

Under the premise of satisfying the power distribution requirement of national design standards for buildings, using the cleanest energy of electricity that equipped with buildings to drive the heat pump system in achieving the nearest efficient transportation of renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy for buildings. In the dynamic balance, it can realize the recycling utilization of the natural energy.

Simply speaking, using one portion of electricity at cost, to convert into mechanical energy for driving the heat pump to take (transmit) large amount of low grade renewable heat with temperature under 25% which is free, stable in supply, as heating energy for buildings, it can produce heating energy equivalent to 3 portions of heating energy generated by electricity.

More than 60% of the total energy consumption for heating is contributed by the renewable shallow ground source energy that is stable in supply. That's the new time entered into 3.0 era of the heating energy.

6. Using the renewable shallow ground source energy for heating is the substitution of energy; for cooling is the energy saving of electricity:

For cooling with the same effect, it can achieve more than 20% saving of electricity when comparing with the air source (household air-conditioning) cooling method because the temperature of the cooling environment of the system is low.

The Group utilizes the renewable shallow ground source energy as alternative heating energy to fully correspond to the traditional central heating and individual heating, the market advantage was gradually shown in the first half of this year. To ensuring the market share and enhancement of the performance of the principal business, we improve the business model on the supply of the renewable shallow ground source energy while satisfying the market demand. We also strengthen the projects' independent accounting, budget implementation and acceptance after inspection for the integrated heating and cooling system projects. For the intelligent manufacturing, the construction of the first heat pump laboratory for northern heating has commenced. The Group has been actively promoting the utilization of shallow ground source energy to covering different industrial users. During the period under review, we won the tender of heating modification project with shallow ground source energy for 35 service areas and toll stations located in different areas of the Liaoning Expressway, at an amount of RMB48 million. We will strongly promote the shallow ground source energy as substitute heating energy for northern regions. We will also construct different demonstration projects in different regions for different industries, users group and government so as to enhance the marketing of the promotion of shallow ground source energy as substitute heating energy for northern regions.

In addition, as our patented system has met the requirements of heating systems and buildings of Shanxi Yuncheng Nursing Vocational College (山西運城護理職業學院) which also satisfied with the government single source procurement requirements, the vocational college and HYY signed a contract for the investment in construction of intelligent combustion-free heating/cooling system with single well ground source energy circulation and 10 years project operations services.

The Group will continue to focus on industrialization development of the original technology, promoting the use of the renewable shallow ground source energy with equivalent in energy grading and parallel temperature as the substitute heating energy for northern regions. The Group is a service provider of clean, efficient and intelligent heating system characterized by provision of heating, cooling and domestic hot water (optional), combustion-free and zero-emission in the using region.

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Ground Source Energy Industry Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 June 2017 together with the unaudited comparative figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Three months ended 30 June		Six months ended 30 June	
	Notes	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	4	140,853	51,675	242,460	189,343
Cost of sales		(95,377)	(16,052)	(151,398)	(121,803)
Gross profit		45,476	35,623	91,062	67,540
Other income		419	21,054	3,759	40,509
Fair value changes on investment properties		16,883	(5,845)	16,883	(5,845)
Selling and distribution expenses		(6,013)	(5,442)	(12,322)	(13,509)
Administrative expenses		(26,287)	(30,395)	(52,126)	(58,259)
Profit from operations		30,478	14,995	47,256	30,436
Share of results of associates		(513)	20	(827)	(649)
Share of result of a joint venture		(434)	(392)	(860)	(976)
Share-based payments		(2,527)	–	(5,054)	–
Finance costs		(9,126)	(9,364)	(17,057)	(18,699)
Profit before tax		17,878	5,259	23,458	10,112
Income tax expense	5	(18,120)	(5,517)	(20,850)	(7,934)
(Loss) profit for the period	6	(242)	(258)	2,608	2,178

	<i>Notes</i>	Three months ended		Six months ended	
		30 June		30 June	
		2017	2016	2017	2016
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other comprehensive income (expense):					
Fair value changes on available-for-sale investments		(1)	3	–	1,123
Gain on revaluation of leasehold land and buildings		5,630	–	5,630	–
Share of other comprehensive income (expenses) of associates		12	(3)	11	(10)
Share of other comprehensive income (expenses) of a joint venture		13	(10)	12	(16)
Exchange differences arising on translation of foreign operations		20,893	(24,449)	29,348	(16,126)
Total other comprehensive income (expense) for the period		26,547	(24,459)	35,001	(15,029)
Total comprehensive income (expense) for the period		26,305	(24,717)	37,609	(12,851)
(Loss) Profit attributable to:					
Owners of the Company		1,961	1,735	6,060	4,571
Non-controlling interests		(2,203)	(1,993)	(3,452)	(2,393)
		(242)	(258)	2,608	2,178
Total comprehensive income (expense) attributable to:					
Owners of the Company		28,019	(27,829)	40,295	(15,675)
Non-controlling interests		(1,714)	3,112	(2,686)	2,824
		26,305	(24,717)	37,609	(12,851)
Earnings per share	8				
Basic (HK cents)		0.068	0.060	0.211	0.159
Diluted (HK cents)		0.068	0.060	0.211	0.159

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current Assets			
Property, plant and equipment	9	337,886	326,850
Investment properties	9	565,845	513,383
Deposit paid for acquisition of land use rights		142,260	119,965
Goodwill		465,760	465,760
Interests in associates		36,115	36,579
Interests in a joint venture		6,102	6,766
Available-for-sale investments		96,757	98,289
Prepayments		6,715	8,371
Deferred tax assets		26,319	26,319
		<u>1,683,759</u>	<u>1,602,282</u>
Current Assets			
Inventories		86,761	60,925
Properties held for sales under development		91,538	88,546
Trade and retention receivables	10	296,981	227,630
Prepayments, deposits and other receivables		125,720	152,859
Amounts due from customers for contract work		340,953	317,832
Amount due from associates		206	6,474
Amounts due from related companies		962	526
Held-for-trading financial assets		62	64
Cash held at non-bank financial institutions		7,341	3,812
Bank balances and cash		150,603	70,119
		<u>1,101,127</u>	<u>928,787</u>
Current Liabilities			
Trade payables	11	310,027	208,950
Accrued liabilities, deposits received and other payables		222,501	171,098
Amounts due to customers for contract work		15,975	12,207
Amounts due to associates		33,751	—
Amount due to a joint venture		795	1,393
Amount due to an non-controlling interest		9,244	24,586
Tax payable		166,786	148,209
		<u>759,079</u>	<u>566,443</u>

	<i>Notes</i>	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Net Current Assets		342,048	362,344
Total Assets less Current Liabilities		2,025,807	1,964,626
Non-Current Liabilities			
Receipt in advance		1,354	2,823
Deferred income		10,108	9,804
Borrowings		460,486	446,662
Deferred tax liabilities		69,894	64,035
		541,842	523,324
Net Assets		1,483,965	1,441,302
Capital and Reserves			
Share capital	12	223,990	223,990
Reserves		1,217,207	1,171,857
Equity attributable to owners of the Company		1,441,197	1,395,847
Non-controlling interests		42,768	45,455
Total Equity		1,483,965	1,441,302

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company													
	Share capital	Share premium	Statutory reserve	Treasury shares	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)	(Note b)				(Note c)	(Note d)	(Note e)						
At 1 January 2016 (audited)	225,184	885,718	2,935	(3,293)	26,217	154,381	(1,694)	32,903	51,142	(1,430)	103,965	1,476,028	44,423	1,520,451
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	4,571	4,571	(2,393)	2,178
Other comprehensive income (expense) for the period:														
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	1,123	-	-	-	1,123	-	1,123
Share of other comprehensive expense of associates	-	-	-	-	-	-	-	-	-	(10)	-	(10)	-	(10)
Share of other comprehensive expense of a joint venture	-	-	-	-	-	-	-	-	-	(16)	-	(16)	-	(16)
Exchange differences arising on translation of foreign operation	-	-	-	-	-	-	-	-	-	(21,343)	-	(21,343)	5,217	(16,126)
Total other comprehensive income (expenses) for the period	-	-	-	-	-	-	-	1,123	-	(21,369)	-	(20,246)	5,217	(15,029)
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	1,123	-	(21,369)	4,571	(15,675)	2,824	(12,851)
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	7,719	-	-	-	-	7,719	(26,353)	(18,634)
Lapse of share options	-	-	-	-	-	-	-	-	(1,235)	-	1,235	-	-	-
Cancellation of repurchased ordinary shares (Note f)	(1,194)	(4,229)	-	3,293	-	-	-	-	-	-	-	(2,130)	-	(2,130)
At 30 June 2016 (unaudited)	223,990	881,489	2,935	-	26,217	154,381	6,025	34,026	49,907	(22,799)	109,771	1,465,942	20,894	1,486,836

Attributable to owners of the Company

	Attributable to owners of the Company													
	Assets										Share-based Exchange		Non-	Total
	Share capital	Share premium	Statutory reserve	Treasury shares	revaluation reserve	Contributed surplus	Special reserve	Capital reserve	payment reserve	translation reserve	Retained earnings	Total	controlling interests	equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)	(Note b)				(Note c)	(Note d)	(Note e)						
At 1 January 2017 (audited)	223,990	881,489	2,935	-	28,086	154,381	2,975	31,811	36,483	(59,420)	93,117	1,395,847	45,455	1,441,302
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	6,060	6,060	(3,452)	2,608
Other comprehensive income (expense) for the period:														
Gain on revaluation of leasehold land and buildings	-	-	-	-	5,630	-	-	-	-	-	-	5,630	-	5,630
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	11	-	11	-	11
Share of other comprehensive income of a joint venture	-	-	-	-	-	-	-	-	-	12	-	12	-	12
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	28,583	-	28,583	765	29,348
Total other comprehensive income (expense) for the period	-	-	-	-	5,630	-	-	-	-	28,606	-	34,236	765	35,001
Total comprehensive income (expense) for the period	-	-	-	-	5,630	-	-	-	-	28,606	6,060	40,296	(2,687)	37,609
Appropriation	-	-	356	-	-	-	-	-	-	-	(356)	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	5,054	-	-	5,054	-	5,054
At 30 June 2017 (unaudited)	<u>223,990</u>	<u>881,489</u>	<u>3,291</u>	<u>-</u>	<u>33,716</u>	<u>154,381</u>	<u>2,975</u>	<u>31,811</u>	<u>41,537</u>	<u>(30,814)</u>	<u>98,821</u>	<u>1,441,197</u>	<u>42,768</u>	<u>1,483,965</u>

Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.

- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior year.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year.
- (f) During the six months ended 30 June 2016, 5,968,000 ordinary shares were repurchased and cancelled with the highest price of HK\$0.36 and the lowest price of HK\$0.34. In addition, 9,344,000 ordinary shares were cancelled during the six months ended 30 June 2016 (repurchased prior to 31 December 2015) with the highest price of HK\$0.36 and the lowest price of HK\$0.33.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	124,349	13,854
Net cash outflow from investing activities	(26,160)	(11,161)
Net cash outflow from financing activities	(17,703)	(19,923)
Increase (decrease) in cash and cash equivalents	80,486	(17,230)
Effect of foreign exchange rates changes	3,527	(2,395)
Cash and cash equivalents at the beginning of the period	73,931	144,818
Cash and cash equivalents at the end of the period	157,944	125,193

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL

China Ground Source Energy Industry Group Limited (the “Company”) was incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The addresses of the registered office and principal place of business in Hong Kong of the Company are P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands and Units 3709-10, 37/F, The Center, 99 Queen’s Road Central, Central, Hong Kong respectively.

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries, associates and a joint venture are production, sales and installation of ground source energy systems, property management, technical support service, sales of air conditioning heat hump and properties investment and development etc.

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. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical costs basis except for certain financial instruments and investment properties, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016 except as described below.

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

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

- (a) Shallow ground source energy segment – provision, installation and maintenance of shallow ground source energy utilisation system;
- (b) Air conditioning heat pump segment – trading of air conditioning heat pump products;
- (c) Securities investments and trading segment – trading of securities and other types of investment; and
- (d) Properties investment and development segment– investment in properties for its potential rental income;

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

(a) Segment revenue and results

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

	Shallow ground source energy		Air conditioning heat pump		Securities investment and trading		Properties investment and development		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue										
External customers	<u>234,904</u>	<u>180,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,556</u>	<u>8,644</u>	<u>242,460</u>	<u>189,343</u>
Segment results	<u>34,650</u>	<u>41,653</u>	<u>-</u>	<u>-</u>	<u>(2,129)</u>	<u>31</u>	<u>24,439</u>	<u>2,210</u>	<u>56,960</u>	<u>43,894</u>
Share of results of associates									(827)	(649)
Share of results of a joint venture									(860)	(976)
Unallocated other income									139	7,415
Unallocated expenses									(14,897)	(20,873)
Unallocated finance costs									<u>(17,057)</u>	<u>(18,699)</u>
Profit before tax									<u>23,458</u>	<u>10,112</u>

Segment result represents profit earned by or loss from each segment without allocation of share of results of associates and a joint venture, interest income, certain other income, 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 revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2016: Nil).

(b) Segment assets and liabilities

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

Segment assets

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Shallow ground source energy	1,500,715	1,387,444
Air conditioning heat pump	64,357	60,441
Securities investment and trading	104,160	99,906
Properties investments and development	895,347	832,683
Total segment assets	2,564,579	2,380,474
Unallocated corporate assets	220,307	150,595
Consolidated total assets	2,784,886	2,531,069

Segment liabilities

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Shallow ground source energy	488,178	331,401
Air conditioning heat pump	41,473	42,352
Securities investment and trading	3,168	4,353
Properties investments and development	21,386	26,776
Total segment liabilities	554,205	404,882
Unallocated corporate liabilities	746,716	684,885
Consolidated total liabilities	1,300,921	1,089,767

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

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

5. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax	14,077	7,711	16,807	10,128
Deferred tax	4,043	(2,194)	4,043	(2,194)
	<u>18,120</u>	<u>5,517</u>	<u>20,850</u>	<u>7,934</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2017 (2016: Nil).

PRC enterprise income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the six months ended 30 June 2017 and 2016.

6. (LOSS) PROFIT FOR THE PERIOD

(Loss) Profit for the period has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	95,377	16,052	151,398	121,803
Staff costs				
(including directors' emoluments)	21,568	18,209	42,123	40,576
Depreciation and amortisation	2,319	3,367	4,620	5,979
Minimum lease payments under operating leases in respect of land and buildings	2,203	2,338	4,371	4,457

7. DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2017, nor has any dividend been proposed since the end of the interim reporting period (2016: Nil).

8. EARNINGS PER SHARE

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Earnings for the period attributable to owners of the Company and for the purpose of basic earnings and diluted earnings per share	<u>1,961</u>	<u>1,735</u>	<u>6,060</u>	<u>4,571</u>
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,876,375	2,876,375	2,876,375	2,876,624
Effect of dilutive potential ordinary shares:				
Share options (<i>note</i>)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,876,375</u>	<u>2,876,375</u>	<u>2,876,375</u>	<u>2,876,624</u>

Note: The calculation of diluted earnings per share for the six months ended 30 June 2017 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the six months ended 30 June 2017.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2017, the Group incurred approximately HK\$4,973,000 (2016: HK\$13,473,000) on acquisition of property, plant and equipment.

The Group's investment properties as at 30 June 2017 were fair valued by Peak Vision Appraisals Limited, an independent professionally qualified valuer not connected to the Group. The resulting increase in fair value of investment properties of approximately HK\$16,883,000 (2016: decrease of HK\$5,845,000) has been recognised directly in the profit or loss for the six months ended 30 June 2017.

10. TRADE AND RETENTION RECEIVABLES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade receivables	250,804	204,937
Less: allowance for doubtful debts	(59,646)	(59,646)
	191,158	145,291
Retention receivables	105,823	82,339
	296,981	227,630

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.

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within 90 days	21,446	67,210
91 to 180 days	39,401	4,301
181 to 365 days	53,434	18,233
Over 365 days	76,877	55,547
	191,158	145,291

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.

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within 90 days	139,000	82,432
91 to 180 days	6,667	13,863
181 to 365 days	58,877	15,745
Over 365 days	105,483	96,910
	310,027	208,950

12. SHARE CAPITAL

	Number of shares US\$0.01 each		Share capital		Share capital	
	30 June 2017 '000 (Unaudited)	31 December 2016 '000 (Audited)	30 June 2017 US\$'000 (Unaudited)	31 December 2016 US\$'000 (Audited)	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Ordinary shares						
Issued and fully paid:						
At the beginning of the period/year	2,876,375	2,891,687	28,763	28,916	223,990	225,184
Shares repurchased and cancelled during the period/year	–	(5,968)	–	(60)	–	(469)
Shares repurchased in previous year and cancelled during the period/year	–	(9,344)	–	(93)	–	(725)
At the end of the period/year	2,876,375	2,876,375	28,763	28,763	223,990	223,990

13. COMMITMENTS

i) Operating lease

The Group as lessor

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

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within one year	10,588	10,642
In the second to fifth years, inclusive	47,395	45,021
Over five years	154,356	155,653
	212,339	211,316

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within one year	3,911	3,640
In the second to fifth years, inclusive	8,100	2,338
Over five years	948	946
	12,959	6,924

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

ii) Others

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– Investment properties under construction	46,527	61,302
– Acquisition of available-for-sale investment	230	223
– Injection of capital into an associate	21,528	20,881
	68,285	82,406

14. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees and business associates of the Group. Details of the share options outstanding during the Review Period are as follows:

	Number of share options
Outstanding at 1 January 2017 and at 30 June 2017	<u>433,020,000</u>

15. RELATED PARTY TRANSACTIONS

- (a) During the periods ended 30 June 2017 and 2016, the Group entered into the following transactions:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Rental income from an associate	42	44	84	87
Purchase from an associate	98	6,402	130	42,213
Sales to an associate	–	2	–	19,069
Sales to related companies	–	–	435	241
	<u>140</u>	<u>6,448</u>	<u>649</u>	<u>61,610</u>

- (b) Remuneration of key management personnel

The remuneration of directors and other members of key management during the periods ended 30 June 2017 and 2016 was as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short term benefits	2,459	2,687	5,360	5,373
Retirement benefits scheme contributions	9	14	18	27
	<u>2,468</u>	<u>2,701</u>	<u>5,378</u>	<u>5,400</u>

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2017 (Unaudited)	31 December 2016 (Audited)		
Financial assets				
Listed investment as classified as available-for-sale investments	Listed investments in information technology: HK\$5,094,000	Listed investments in information technology: HK\$7,038,000	Level 1	Quoted bid prices in an active market
Fund classified as available-for-sale investments	Fund investments in natural resources HK\$53,150,000	Fund investments in natural resources HK\$57,248,000	Level 1	Quoted bid prices in an active market
Held-for-trading non-derivative financial assets classified as held-for-trading financial assets	Listed securities in the Stock Exchange: infrastructure HK\$62,000	Listed securities in the Stock Exchange: infrastructure HK\$64,000	Level 1	Quoted bid prices in an active market

17. EVENTS AFTER THE REPORTING PERIOD

During the review period, the Company proposed rights issue on the basis of two (2) rights shares for every five (5) existing shares in issue on the record date at the rights issue price of HK\$0.10 per rights share.

On 10 July 2017, (i) a total of 16 valid acceptances of provisional allotments had been received for a total of 891,102,248 rights shares, representing approximately 77.45% of the total number of rights shares available for subscription under the rights issue; and (ii) a total of 14 valid applications for excess rights shares had been received for a total of 4,706,635,997 rights shares, representing approximately 409.08% of the total number of rights shares available for subscription under the rights issue. In aggregate, a total of 30 valid acceptance and applications in respect of 5,597,738,245 rights shares had been received, representing approximately 486.53% of the total number of rights shares available for subscription under the rights issue.

Based on the above results of acceptance and application, the rights issue was over-subscribed by 4,447,188,199 rights shares, representing approximately 386.53% of the total number of 1,150,550,046 rights shares available for subscription under the rights issue. Pursuant to the terms of the underwriting agreement, the obligations of the underwriters in respect of the underwritten shares have been fully discharged and the underwriters are not required to take up any underwritten shares.

The relevant share certificates for all fully-paid rights shares (including the excess rights shares) were despatched to those entitled thereto on 18 July 2017. Dealings in the fully-paid rights shares were commenced on the Stock Exchange on 19 July 2017.

The proceeds from the rights issue amounted to approximately HK\$115,055,000 (before deducting the relevant expenses).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
			Interests in shares				
Mr. Xu Shengheng (Note 1)	Beneficial owner	1,017,256,859 (L)		35.37%	33,600,000 (L)	1,051,839,659 (L)	36.57%
	Beneficial owner	508,300,000 (S)		17.67%	–	508,300,000 (S)	17.67%
	Interest of spouse	982,800 (L)		0.03%	–		
Ms. Chan Wai Kay Katherine (Note 2)	Beneficial owner	110,411,682 (L)		3.84%	39,000,000 (L)	163,515,282 (L)	5.68%
	Interest of spouse	14,103,600 (L)		0.49%	–		
Mr. Wang Manquan (Note 3)	Beneficial owner	512,000 (L)		0.02%	27,000,000 (L)	27,512,000 (L)	0.96%
Mr. Jia Wenzeng (Note 4)	Beneficial owner	–		–	4,300,000 (L)	4,300,000 (L)	0.15%
Mr. Wu Desheng (Note 5)	Beneficial owner	–		–	2,800,000 (L)	2,800,000 (L)	0.10%

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

Notes:

1. The aggregated interests held by Mr. Xu Shengheng (“Mr. Xu”) as of 30 June 2017 consisted of (i) 508,319,000 Shares beneficially owned by Mr. Xu, (ii) 216,767,600 rights shares undertaken to be taken by Mr. Xu, (iii) 292,170,259 rights shares underwritten by Mr. Xu under the underwriting agreement dated 12 April 2017 (the “Underwriting Agreement”), (iv) 33,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and (v) spousal interest of 982,800 Shares. Ms. Luk Hoi Man, the spouse of Mr. Xu, is interested in 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk Hoi Man is interested.
2. The aggregated interests held by Ms. Chan Wai Kay Katherine (“Ms. Chan”) as of 30 June 2017 consisted of (i) 41,636,000 Shares beneficially owned by Ms. Chan, (ii) 32,254,400 rights shares undertaken to be taken by Ms. Chan, (iii) 36,521,282 rights shares underwritten by Ms. Chan under the Underwriting Agreement, (iv) 39,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and (v) spousal interest of 14,103,600 Shares. Mr. Chow Ming Joe Raymond, spouse of Ms. Chan, is interested in 14,103,600 Shares. Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow Ming Joe Raymond is interested.
3. Mr. Wang Manquan is interested 512,000 Shares and 27,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
4. Mr. Jia Wenzeng is interested in 4,300,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
5. Mr. Wu Desheng is interested in 2,800,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Positions under Equity Derivatives

The Share Option Plan

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Plan") for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 30 June 2017, the following directors of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2017
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667
		9 September 2012 to 8 September 2020	0.426	1,666,667
		9 September 2013 to 8 September 2020	0.426	1,666,666
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000

Save as disclosed above, as at 30 June 2017, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 June 2017, persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions and Short Positions in Shares and Equity Derivatives

Name	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and capacity		Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
		Interest in shares					
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited <i>(Note 1)</i>	Beneficial owner	1,482,170,258 (L)		51.53%	–	1,482,170,258 (L)	51.53%
China Energy Conservation and Environmental Protection Group <i>(Note 2)</i>	Interest of controlled corporation	1,482,170,258 (L)		51.53%	–	1,482,170,258 (L)	51.53%
Ms. Luk Hoi Man <i>(Note 3)</i>	Beneficial owner	982,800 (L)		0.03%	–		
	Interest of spouse	1,017,256,859 (L)		35.37%	33,600,000 (L)	1,051,839,659 (L)	36.57%
		508,300,000 (S)		17.67%	–	508,300,000 (S)	17.67%

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

Notes:

1. The aggregated interests held by China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (“CECEP (Hong Kong)”) as of 30 June 2017 consisted of (i) 850,000,000 Shares beneficially owned by CECEP (Hong Kong); (ii) 340,000,000 rights shares undertaken to be taken by CECEP (Hong Kong); and (iii) 292,170,258 rights shares underwritten by CECEP (Hong Kong) under the Underwriting Agreement.
2. CECEP (Hong Kong) is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP Group”). Therefore, under the SFO, CECEP Group is deemed to be interested in 1,482,170,258 Shares.
3. The aggregated interests held by Ms. Luk Hoi Man (“Ms. Luk”) as of 30 June 2017 consisted of (i) 702,000 Shares beneficially owned by Ms. Luk; (ii) 280,800 rights shares undertaken to be taken by her, and (iii) 1,017,256,859 spousal interest. Mr. Xu, spouse of Ms. Luk, is interested in 1,017,256,859 Shares and 33,600,000 Shares issuable pursuant to exercise of share options of the Company. Under the SFO, Ms. Luk is deemed to be interested in 1,017,256,859 Shares in which Mr. Xu is interested.

Save as disclosed above, as at 30 June 2017, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 30 June 2017, options to subscribe for an aggregate of 433,020,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2017 were as follows:

Date of grant of share options	As at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2017	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	50,388,000	–	–	–	50,388,000	–	9 September 2010 to 8 September 2020	0.426
9 September 2010	31,666,667	–	–	–	31,666,667	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.426
9 September 2010	31,666,667	–	–	–	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.426
9 September 2010	31,666,666	–	–	–	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.426
8 December 2016	71,600,000	–	–	–	71,600,000	–	8 December 2016 to 31 December 2020	0.300
8 December 2016	108,016,000	–	–	–	108,016,000	8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	0.300
8 December 2016	108,016,000	–	–	–	108,016,000	8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	0.300
	<u>433,020,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>433,020,000</u>			

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.

CORPORATE GOVERNANCE CODE

During the Review Period, 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.

Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, Mr. Wu Desheng and Mr. Guo Qingui, both being the independent non-executive Director, did not attend the extraordinary general meeting held on 13 June 2017 due to their engagement in other business.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee’s primary duties are to review and to supervise the financial reporting process, risk management and internal control systems of the Group and to provide advice and comments to the directors of the Company.

The audit committee currently comprises four independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. Mr. Jia Wenzeng is the chairman of the audit committee. The audit committee has reviewed the Group’s unaudited results for the Review Period and has provided advice and comment thereon.

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 and the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors during the Review Period.

UPDATE ON DIRECTORS’ INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors for the Review Period is set out below:–

Mr. An Yi was appointed as Joint Chairman of the Board and executive Director of the Company, Chairman of the strategic committee, Deputy Chairman of nomination committee and remuneration committee of the Company with effect from 30 March 2017.

Mr. Liu Dajun has resigned as Joint Chairman of the Board and executive Director of the Company, Chairman of the strategic committee, Deputy Chairman of nomination committee and remuneration committee of the Company with effect from 30 March 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Review Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

As at the date of this announcement, the Board comprises Mr. An Yi, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Zhao Youmin as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui as independent non-executive Directors.

By Order of the Board of
China Ground Source Energy Industry Group Limited
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 9 August 2017

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 the Company at www.cgsenergy.com.hk.