



中國地熱能產業發展集團有限公司
CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given that the companies listed on GEM are generally small and mid-sized companies, 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.

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This announcement, for which the directors of China Geothermal Industry Development Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) of The Stock Exchange 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 2019 (the “Review Period”) amounted to approximately HK\$103,468,000.

Net loss after tax of the Group for the Review Period amounted to approximately HK\$67,409,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Geothermal Industry Development 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 2018.

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow geothermal energy	17,936	116,740	82,742	265,423
– Air conditioning heat pump	14,207	67	14,418	67
– Property investment and development	2,436	4,040	6,308	13,032
	<u>34,579</u>	<u>120,847</u>	<u>103,468</u>	<u>278,522</u>
(Loss)/profit for the period	<u>(47,860)</u>	<u>(517)</u>	<u>(67,409)</u>	<u>3,661</u>
(Loss)/profit attributable to owners of the parent	<u>(46,207)</u>	<u>2,221</u>	<u>(65,700)</u>	<u>8,771</u>

During the Review Period, the Group’s revenue amounted to approximately HK\$103,468,000 which was mainly contributed by shallow geothermal energy utilisation business and approximately HK\$278,522,000 for the corresponding period last year. The revenue decreased by approximately HK\$175,054,000 as compared with that of corresponding period last year. As the macroeconomic development trend continued to be weak, the pressure on the financial status of the enterprises and the government had increased. The government and enterprises have slowed their investment in construction. In addition, the market competition has become fierce, the Group’s business performance and development during the Review Period had been significantly affected. Some of the Group’s projects were not signed as scheduled. In addition to the macroeconomic impact, the Company’s past business focus was on the Beijing market, and the volume of business had experienced a large decline. As a result, the Group’s revenue during the period recorded a significant

decline compared to the same period last year. The Group's gross profit margin decreased from 40.8% in last corresponding period to 20.1% in the current period. The decrease in gross profit margin of the Group was mainly due to the fact that, since this year, the Group has invested in a number of demonstration projects in Zhangjiakou area, Handan area, Tianjin Baodi and the Changzi County of Shanxi Province for the development of new markets. The Group's gross profit margin decreased during the period.

Other income and gains increased from approximately HK\$1,475,000 in the corresponding period last year to approximately HK\$12,847,000 for the six months ended 30 June 2019. This was mainly attributable to the adjustment regarding the waiver of the account payables and the increase in the interest income.

Selling and distribution expenses amounted to approximately HK\$11,971,000 and HK\$14,110,000 for the six months ended 30 June 2019 and 2018 respectively. The selling and distribution expenses for the Review Period decreased as compared with the corresponding period last year due to the effective cost control of the Group.

During the Review Period, administrative expenses decreased by approximately HK\$13,222,000 or 21.4% as compared with that of six months ended 30 June 2018. Administrative expenses decreased mainly due to the effective cost control by the Group, included the decrease in employee salary and benefit expenses by HK\$7,992,000. The number of staff also dropped as compared with last year.

Finance costs amounted to approximately HK\$23,727,000 was recorded for the six months ended 30 June 2019 (including guarantee fee on bank loans amounted to approximately HK\$4,632,000) as compared with approximately HK\$25,449,000 for last corresponding period. The finance costs was mainly represented the borrowing costs on the loan.

For the six months ended 30 June 2019, the loss for the period was approximately HK\$67,409,000, whereas the profit was approximately HK\$3,661,000 for the corresponding period in last year.

Order Book

As at 30 June 2019, the Group has contracts on hand of approximately HK\$379,579,000.

Investment Properties

The Group's investment properties as at 30 June 2019 were valued at HK\$672,206,000. An increase in fair value of investment properties of approximately HK\$1,318,000 (six months ended 30 June 2018: approximately HK\$1,067,000) was recognised directly in profit or loss by the Group during the Review Period.

Liquidity, Capital Structure and Gearing Ratio

Net current liabilities of the Group as at 30 June 2019 was approximately HK\$598,639,000 (31 December 2018: approximately HK\$590,281,000). In 2016, the Group obtained entrusted loans in the principal amount of RMB400,000,000 (equivalent to approximately HK\$454,700,000) 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 September 2019 according to the entrusted loan agreement.

As at 30 June 2019, the Group had cash and cash equivalents of approximately HK\$40,980,000 (31 December 2018: approximately HK\$72,934,000). Cash and cash equivalents on the condensed consolidated statement of financial position include funds available for general corporate purposes.

Non-controlling interests amounted to approximately HK\$32,284,000 which mainly represents the interests attributable to non-controlling shareholders of the Group's subsidiaries in the PRC.

The gearing ratio of the Group, based on total net debt (including interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 50% as at 30 June 2019 (31 December 2018: 49%).

Charges on asset

As at 30 June 2019, no Group's asset has been charged. (31 December 2018: Nil)

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 2019, the Group had no material contingent liabilities (31 December 2018: Nil).

Employees

As at 30 June 2019, the Group has approximately 500 employees in total (31 December 2018: 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

As some of the Company's projects were not signed as anticipated this year, the government and enterprises also slowed down their construction investment which resulted in a significant decline in the Group's revenue during the period under review as compared to the same period last year. In addition to the macroeconomic impact, the business volume from the Beijing market, being the Company's past focused market, has experienced a significant decline. The management of the Group, at the beginning of the year, has thoroughly analyzed the overall condition of the industry and made adjustment to the internal structure, management and operation mode of the Company according to the market situation. Among them, the Company began to introduce demonstration model projects in Hebei and Shanxi to promote regional development. Due to the low gross profit of the demonstration model projects and the weak bargaining power for the current projects, the gross profit margin during the period under review was also negatively affected. The Company has actively explored new markets in different ways and in different regions with an aim to enable the Company's business to continue to develop. Through the active promotion in the new market by the Company, we have obtained projects in Hebei, Shanxi and Shandong, and realized the channel to open up new markets. We are also actively promoting the agency system in some regions in order to promote our business in a multi-directional and more flexible manner.

In addition, the "Geothermal Energy Cloud Platform" jointly developed by Ever Source Science & Technology Development Group Co., Ltd. (恆有源科技發展集團有限公司) and Beijing Digital Dafang Technology Co., Ltd. (北京數碼大方科技股份有限公司) held a promotion conference during the period under review. As a professional industrial Internet platform in the field of geothermal energy, the "Geothermal Energy Cloud Platform" is based on industrial software, cloud computing, big data, mobile internet and Internet of Things which provides a full-process support service for the geothermal energy industry, with a focus on supporting the construction, maintenance, monitoring of the operation of geothermal energy industry, enhancing construction efficiency, ensuring construction quality, and providing efficient after-sales maintenance and operation services. The Company also hopes to promote and lead the development of the entire industry through information technology.

In response to the current challenges faced by the Company, we have continued to strengthen measures such as cost control and budget assessment. All expenses were decreased during the period under review. The Company also continues to enhance its service quality, strengthen its brand building and market expansion in order to further enhance and drive the Company's business development. It is expected that, in 2019, market funds will become tighter and will still have great pressure and impact on our business. We will try our utmost to move forward for the Company's development with a pragmatic attitude and also strive to implement various major strategic objectives to promote the development of the emerging industry of non-combustion integrated heating and cooling with geothermal energy so as to bring the Company to a higher level.

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Geothermal Industry Development 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 2019 together with the unaudited comparative figures for the corresponding periods in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Three months ended 30 June		Six months ended 30 June	
	Notes	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	4	34,579	120,847	103,468	278,522
Cost of sales		<u>(23,618)</u>	<u>(67,066)</u>	<u>(82,706)</u>	<u>(164,942)</u>
Gross profit		10,961	53,781	20,762	113,580
Other income and gains	4	1,577	1,246	12,847	1,475
Selling and distribution expenses		(5,333)	(7,121)	(11,971)	(14,110)
Administrative expenses		(23,559)	(33,453)	(48,537)	(61,759)
Impairment losses on trade and bills receivables, net		(7,408)	–	(2,887)	–
Impairment losses on prepayments, deposits and other receivables, net		(3,367)	–	(3,367)	–
Impairment losses on contract assets, net		(511)	–	(511)	–
Finance costs	5	(12,139)	(13,050)	(23,727)	(25,449)
Fair value changes on investment properties		1,318	1,067	1,318	1,067
Other expenses		(1,106)	–	(1,106)	–
Share of profits and losses of:					
A joint venture		446	(19)	146	274
Associates		(7,762)	1,648	(8,623)	(1,322)
Share-based payment expenses		<u>–</u>	<u>(843)</u>	<u>–</u>	<u>(1,685)</u>
(Loss)/profit before tax	6	(46,883)	3,256	(65,656)	12,071
Income tax expense	7	<u>(977)</u>	<u>(3,773)</u>	<u>(1,753)</u>	<u>(8,410)</u>
(Loss)/profit for the period		<u>(47,860)</u>	<u>(517)</u>	<u>(67,409)</u>	<u>3,661</u>
Attributable to:					
Owners of the parent		(46,207)	2,221	(65,700)	8,771
Non-controlling interests		<u>(1,653)</u>	<u>(2,738)</u>	<u>(1,709)</u>	<u>(5,110)</u>
		<u>(47,860)</u>	<u>(517)</u>	<u>(67,409)</u>	<u>3,661</u>
(Loss)/earnings per share attributable to ordinary equity holders of the parent	9				
Basic and diluted (expressed in HK\$ cents)		<u>(1.147)</u>	<u>0.055</u>	<u>(1.632)</u>	<u>0.218</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(47,860)	(517)	(67,409)	3,661
Other comprehensive (loss)/income:				
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	(18,146)	(62,187)	(1,829)	(15,391)
Share of other comprehensive (loss)/income of a joint venture	(4)	7	(3)	9
Share of other comprehensive (loss)/income of associates	105	(25)	108	(45)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(18,045)	(62,205)	(1,724)	(15,427)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Equity investments designated at fair value through other comprehensive income				
Changes in fair value, net of tax	4,048	3,333	4,051	3,335
Gains on property revaluation	3,381	1,808	3,381	1,808
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	7,429	5,141	7,432	5,143
Other comprehensive (loss)/income for the period, net of tax	(10,616)	(57,064)	5,708	(10,284)
Total comprehensive loss for the period	(58,476)	(57,581)	(61,701)	(6,623)
Attributable to:				
Owners of the parent	(56,360)	(53,150)	(60,517)	(1,222)
Non-controlling interests	(2,116)	(4,431)	(1,184)	(5,401)
	(58,476)	(57,581)	(61,701)	(6,623)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Non-current Assets			
Property, plant and equipment	10	313,633	318,590
Investment properties	10	672,206	663,958
Right-of-use assets		5,402	–
Deposits paid for acquisitions of land use rights		39,941	100,566
Goodwill		263,879	263,879
Investment in a joint venture		7,760	7,647
Investments in associates		41,279	49,824
Equity investments designated at fair value through other comprehensive income		242,077	238,974
Deferred tax assets		40,477	41,529
Long-term prepayments		–	933
Contract assets		18,708	18,825
Trade receivables		147,389	65,736
Total non-current assets		1,792,751	1,770,461
Current Assets			
Inventories		65,583	56,880
Properties held for sales		90,419	90,780
Trade and bills receivables	11	77,579	78,773
Prepayments, deposits and other receivables		231,252	169,167
Contract assets		206,428	251,935
Amount due from a joint venture		846	745
Financial assets at fair value through profit or loss		59	209
Time deposits		2,960	231
Pledged deposits		5,142	1,549
Cash and cash equivalents		40,980	72,934
Total current assets		721,248	723,203

	<i>Notes</i>	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Current Liabilities			
Trade and bills payables	12	400,554	473,641
Other payables and accruals		210,219	138,417
Contract liabilities		61,304	56,510
Amounts due to associates		7,004	8,779
Amounts due to related companies		29,908	25,445
Interest-bearing bank borrowings		454,700	456,517
Lease liabilities		5,687	–
Tax payable		150,511	154,175
Total current liabilities		1,319,887	1,313,484
Net Current Liabilities		(598,639)	(590,281)
Total Assets Less Current Liabilities		1,194,112	1,180,180
Non-Current Liabilities			
Other payables and accruals		9,606	10,472
Lease liabilities		35,012	–
Deferred income		9,978	10,021
Deferred tax liabilities		81,318	74,825
Total non-current liabilities		135,914	95,318
Net assets		1,058,198	1,084,862
Equity			
Equity attributable to owners of the parent			
Share capital	13	313,793	313,793
Reserves		712,121	737,601
		1,025,914	1,051,394
Non-controlling interests		32,284	33,468
Total equity		1,058,198	1,084,862

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

Note	Attributable to owners of the parent										Total	Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Asset revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits			
	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
At 1 January 2018 (audited)	313,793	903,884	2,935	42,998	154,381	2,975	32,812	46,029	23,753	103,650	1,627,210	59,820	1,687,030
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	8,771	8,771	(5,110)	3,661
Other comprehensive income/(loss) for the period	-	-	-	1,808	-	-	3,335	-	(15,136)	-	(9,993)	(291)	(10,284)
Total comprehensive income/(loss) for the period	-	-	-	1,808	-	-	3,335	-	(15,136)	8,771	(1,222)	(5,401)	(6,623)
Share-based payments	-	-	-	-	-	-	-	1,685	-	-	1,685	-	1,685
At 30 June 2018 (unaudited)	<u>313,793</u>	<u>903,884</u>	<u>2,935</u>	<u>44,806</u>	<u>154,381</u>	<u>2,975</u>	<u>36,147</u>	<u>47,714</u>	<u>8,617</u>	<u>112,421</u>	<u>1,627,673</u>	<u>54,419</u>	<u>1,682,092</u>
	Attributable to owners of the parent										Total	Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Asset revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share option reserve	Exchange fluctuation reserve	Accumulated losses			
	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
At 31 December 2018 (audited)	313,793	904,470	2,935	48,358	154,381	2,975	13,449	49,117	(25,570)	(412,514)	1,051,394	33,468	1,084,862
Effect of adoption of HKFRS 16	-	-	-	-	-	-	-	-	-	35,037	35,037	-	35,037
At 1 January 2019 (unaudited)	313,793	904,470	2,935	48,358	154,381	2,975	13,449	49,117	(25,570)	(377,477)	1,086,431	33,468	1,119,899
Loss for the period	-	-	-	-	-	-	-	-	-	(65,700)	(65,700)	(1,709)	(67,409)
Other comprehensive income/(loss) for the period	-	-	-	3,381	-	-	4,051	-	(2,249)	-	5,183	525	5,708
Total comprehensive income/(loss) for the period	-	-	-	3,381	-	-	4,051	-	(2,249)	(65,700)	(60,517)	(1,184)	(61,701)
At 30 June 2019 (unaudited)	<u>313,793</u>	<u>904,470*</u>	<u>2,935*</u>	<u>51,739*</u>	<u>154,381*</u>	<u>2,975*</u>	<u>17,500*</u>	<u>49,117*</u>	<u>(27,819)*</u>	<u>(443,177)*</u>	<u>1,025,914</u>	<u>32,284</u>	<u>1,058,198</u>

* These reserve accounts comprise the consolidated reserves of HK\$712,121,000 (31 December 2018: HK\$737,601,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash flows (used in)/from operating activities	(38,951)	54,006
Net cash flows (used in)/from investing activities	(9,973)	1,090
Net cash flows from/(used in) financing activities	17,082	(96,063)
Net decrease in cash and cash equivalents	(31,842)	(40,967)
Cash and cash equivalents at the beginning of period	72,934	122,004
Effect of foreign exchange rate changes, net	(112)	(1,116)
Cash and cash equivalents at the end of period	40,980	79,921

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

China Geothermal Industry Development Group Limited (the “Company”) was incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on the 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.

During the six months ended 30 June 2019, the Group was involved in the following principal activities:

- Provision, installation and maintenance of shallow geothermal energy utilisation system
- Trading of air conditioning heat pump products
- Investment in properties for their potential rental income
- Trading of securities and other types of investments

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM 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 are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2019. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's condensed consolidated financial statements. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts of properties and plants. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application,
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease,
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics, relied on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review, and excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) HK\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	7,842
Increase in trade receivables	81,408
Decrease in long-term prepayments	(933)
Decrease in payments, deposits and other receivables	(4,060)
Increase in total assets	84,257
Liabilities	
Increase in lease liabilities	42,596
Increase in deferred tax liabilities	6,624
Increase in total liabilities	49,220
Decrease in accumulated losses	(35,037)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<i>HK\$'000</i> (Unaudited)
Operating lease commitments as at 31 December 2018	7,766
Weighted average incremental borrowing rate as at 1 January 2019	7%
Discounted operating lease commitments as at 1 January 2019	7,389
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	61
Add: Payments for extension periods not recognised as at 31 December 2018	35,268
Lease liabilities as at 1 January 2019	42,596

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets	Lease liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
As at 1 January 2019	7,842	42,596
Deduction	(162)	(162)
Depreciation charge	(2,276)	–
Interest expense	–	1,426
Payments	–	(2,543)
Other payables and accruals	–	(455)
Exchange realignment	(2)	(163)
As at 30 June 2019	<u>5,402</u>	<u>40,699</u>

The Group recognised rental expenses from short-term leases of HK\$68,000 for the six months ended 30 June 2019.

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's condensed consolidated financial statements.

- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group’s condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

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

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit/loss before tax except that share of profits and losses of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and finance costs are excluded from such measurement.

Segment assets exclude, certain other receivables, investments in associates and a joint venture, deferred tax assets, amount due from a joint venture, time deposits, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude certain other payables and accruals, amounts due to associates and related companies, interest-bearing bank borrowings, lease liabilities, deferred tax liabilities and tax payable as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Segment revenue and results

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2019 and 2018, respectively:

	Shallow geothermal energy		Air conditioning heat pump		Property investment and development		Securities investment and trading		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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	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)
Segment revenue (note 4)										
Sales to external customers	82,742	265,423	14,418	67	6,308	13,032	-	-	103,468	278,522
Intersegment sales	-	-	5,201	-	-	-	-	-	5,201	-
	82,742	265,423	19,619	67	6,308	13,032	-	-	108,669	278,522
Reconciliation:										
Elimination of intersegment sales									(5,201)	-
Revenue									103,468	278,522
Segment results	(37,179)	50,863	174	(3,990)	6,045	13,759	12	344	(30,948)	60,976
Reconciliation:										
Elimination of intersegment results									(686)	-
Share of profits or losses of associates									(8,623)	(1,322)
Share of profits or losses of a joint venture									146	274
Unallocated other income									12,335	1,036
Corporate and other unallocated expenses									(14,153)	(23,444)
Finance costs									(23,727)	(25,449)
(Loss)/profit before tax									(65,656)	12,071

(b) Segment assets and liabilities

The following tables present assets and liabilities information for the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively:

	30 June 2019				
	Shallow geothermal energy HK\$'000 (Unaudited)	Air conditioning heat pump HK\$'000 (Unaudited)	Property investment and development HK\$'000 (Unaudited)	Securities investment and trading HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment assets	1,207,662	58,804	916,585	243,327	2,426,378
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(53,623)
Corporate and other unallocated assets					141,244
Total assets					<u><u>2,513,999</u></u>
Segment liabilities	650,632	78,741	65,810	6,914	802,097
<i>Reconciliation:</i>					
Elimination of intersegment payables					(53,623)
Corporate and other unallocated liabilities					707,327
Total liabilities					<u><u>1,455,801</u></u>
	31 December 2018				
	Shallow geothermal energy HK\$'000 (Audited)	Air conditioning heat pump HK\$'000 (Audited)	Property investment and development HK\$'000 (Audited)	Securities investment and trading HK\$'000 (Audited)	Total HK\$'000 (Audited)
Segment assets	1,106,222	66,158	965,746	240,347	2,378,473
<i>Reconciliation:</i>					
Elimination of intersegment receivables					(61,079)
Corporate and other unallocated assets					176,270
Total assets					<u><u>2,493,664</u></u>
Segment liabilities	596,411	90,317	58,529	4,883	750,140
<i>Reconciliation:</i>					
Elimination of intersegment payables					(61,079)
Corporate and other unallocated liabilities					719,741
Total liabilities					<u><u>1,408,802</u></u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>	32,143	116,807	97,160	265,490
<i>Revenue from other sources</i>				
Gross rental income	<u>2,436</u>	<u>4,040</u>	<u>6,308</u>	<u>13,032</u>
	<u>34,579</u>	<u>120,847</u>	<u>103,468</u>	<u>278,522</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2019

Segments	Shallow geothermal energy <i>HK\$'000</i> (Unaudited)	Air conditioning heat pump <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Type of goods or services:			
Sale of goods	–	14,418	14,418
Construction services	<u>82,742</u>	<u>–</u>	<u>82,742</u>
Total revenue from contracts with customers	<u>82,742</u>	<u>14,418</u>	<u>97,160</u>
Geographical markets:			
Mainland China	<u>82,742</u>	<u>14,418</u>	<u>97,160</u>
Timing of revenue recognition:			
Goods transferred at a point in time	–	14,418	14,418
Services transferred over time	<u>82,742</u>	<u>–</u>	<u>82,742</u>
Total revenue from contracts with customers	<u>82,742</u>	<u>14,418</u>	<u>97,160</u>

For the six months ended 30 June 2018

Segments	Shallow geothermal energy <i>HK\$'000</i> (Unaudited)	Air conditioning heat pump <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Type of goods or services:			
Sale of goods	–	67	67
Construction services	265,423	–	265,423
	<u>265,423</u>	<u>67</u>	<u>265,490</u>
Total revenue from contracts with customers	<u>265,423</u>	<u>67</u>	<u>265,490</u>
Geographical markets:			
Mainland China	265,423	67	265,490
	<u>265,423</u>	<u>67</u>	<u>265,490</u>
Timing of revenue recognition:			
Goods transferred at a point in time	–	67	67
Services transferred over time	265,423	–	265,423
	<u>265,423</u>	<u>67</u>	<u>265,490</u>
Total revenue from contracts with customers	<u>265,423</u>	<u>67</u>	<u>265,490</u>

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the six months ended 30 June 2019

Segments	Shallow geothermal energy <i>HK\$'000</i> (Unaudited)	Air conditioning heat pump <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from contracts with customers:			
External customers	82,742	14,418	97,160
Intersegment sales	–	5,201	5,201
	<u>82,742</u>	<u>19,619</u>	<u>102,361</u>
Intersegment adjustments and eliminations	–	(5,201)	(5,201)
	<u>82,742</u>	<u>14,418</u>	<u>97,160</u>
Total revenue from contracts with customers	<u>82,742</u>	<u>14,418</u>	<u>97,160</u>

For the six months ended 30 June 2018

Segments	Shallow geothermal energy <i>HK\$'000</i> (Unaudited)	Air conditioning heat pump <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue from contracts with customers:			
External customers	265,423	67	265,490
Intersegment sales	—	—	—
	265,423	67	265,490
Intersegment adjustments and eliminations	—	—	—
Total revenue from contracts with customers	265,423	67	265,490

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other income				
Interest income	1,177	118	1,686	193
Sale of scrap materials	38	250	157	325
Dividend income from financial assets at fair value through profit or loss	26	13	26	13
Government grants (<i>Note</i>)	853	63	865	96
Others	(529)	471	10,101	517
	1,565	915	12,835	1,144
Gains				
Fair value change on financial assets at fair value through profit or loss	12	331	12	331
	12	331	12	331
	1,577	1,246	12,847	1,475

Note: Government grants have been received in respect of certain heating projects of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on bank loans	8,420	10,620	17,669	20,539
Guarantee fee on bank loans	2,293	2,430	4,632	4,910
Interest on lease liabilities	1,426	–	1,426	–
	12,139	13,050	23,727	25,449

6. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	12,794	46	12,794	46
Cost of services provided	10,824	67,020	69,912	164,896
Depreciation	5,060	2,525	8,405	5,115
Employee benefit expense (including directors' and chief executive's remuneration)	19,431	20,444	36,016	44,008
Impairment loss recognised in respect of trade and bills receivables, net	7,408	–	2,887	–
Impairment loss recognised in respect of prepayments, deposits and other receivables, net	3,367	–	3,367	–
Loss on uncertainty in respect of collectability of contract assets	511	–	511	–

7. INCOME TAX EXPENSE

Pursuant to the laws and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI during both periods.

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

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

Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries were recognised as high and new technology enterprises and the income tax rate applicable to these subsidiaries was 15% for the six months ended 30 June 2019 (six months ended 30 June 2018: 15%).

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current – Mainland China	(98)	3,591	678	8,228
Deferred	1,075	182	1,075	182
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total tax charge for the period	<u>977</u>	<u>3,773</u>	<u>1,753</u>	<u>8,410</u>

8. DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2019, nor has any dividend been proposed since the end of the interim reporting period (six months ended 30 June 2018: Nil).

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,026,925,000 (30 June 2018: 4,026,925,000) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price of the Company's shares for the six months ended 30 June 2019 and 2018.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/earnings				
(Loss)/profit for the period attributable to ordinary equity holders of the parent	<u>(46,207)</u>	<u>2,221</u>	<u>(65,700)</u>	<u>8,771</u>
	Number of shares			
	'000	'000	'000	'000
Shares				
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	<u>4,026,925</u>	<u>4,026,925</u>	<u>4,026,925</u>	<u>4,026,925</u>

10. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2019, the Group incurred approximately HK\$339,000 (30 June 2018: HK\$4,115,000) on acquisition of property, plant and equipment.

The Group's investment properties as at 30 June 2019 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\$1,318,000 (30 June 2018: increase of HK\$1,067,000) has been recognised directly in the profit or loss for the six months ended 30 June 2019.

11. TRADE AND BILLS RECEIVABLES

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Trade receivables	326,148	240,047
Impairment	(101,180)	(96,356)
Trade receivables, net	224,968	143,691
Bills receivables	–	818
	224,968	144,509
Less: non-current portion	(147,389)	(65,736)
Current portion	77,579	78,773

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 90 days	22,644	33,262
91 to 180 days	90,764	3,181
181 to 365 days	12,741	28,536
Over 365 days	98,819	79,530
	224,968	144,509

12. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within 90 days	11,669	168,719
91 to 180 days	98,981	38,844
181 to 365 days	93,509	76,214
Over 365 days	196,395	189,864
	400,554	473,641

The trade and bills payables are non-interest-bearing and are normally settled in six months.

13. SHARE CAPITAL

	Number of shares US\$0.01 each		Share capital		Share capital	
	30 June 2019 '000 (Unaudited)	31 December 2018 '000 (Audited)	30 June 2019 US\$'000 (Unaudited)	31 December 2018 US\$'000 (Audited)	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Ordinary shares issued and fully paid	4,026,925	4,026,925	40,269	40,269	313,793	313,793

14. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its part of the buildings and 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 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within one year	4,539	13,610
In the second to fifth years, inclusive	19,035	57,485
After five years	21,706	119,065
	45,280	190,160

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years.

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

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Within one year	30	4,775
In the second to fifth years, inclusive	–	2,991
	30	7,766

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Contracted, but not provided for:		
– Investment properties under construction	13,424	22,643
– Acquisition of an equity investment designated at fair value through other comprehensive income	227	228
– Capital contributions payable to an associate	4,547	4,565
	18,198	27,436

16. 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 2019 and at 30 June 2019	486,182,851

17. RELATED PARTY TRANSACTIONS

- (a) Amounts due from/to related companies, a joint venture, and associates are included in the condensed consolidated statement of financial position.
- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Associates:				
Purchase of products	17,727	1,995	20,357	1,995
Rental income	43	45	85	90
Other related parties:				
Deposit cash	6	6	6	6
Rental expense	12	12	23	23
Guarantee fee	2,293	2,430	4,632	4,910

- (c) Compensation of key management personnel of the Group:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short term employee benefits	3,476	4,456	6,925	7,806
Post-employment benefits	23	14	46	27
Equity-settled share option expense	—	136	—	273
Total compensation paid to key management personnel	<u>3,499</u>	<u>4,606</u>	<u>6,971</u>	<u>8,106</u>

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
Financial assets				
Trade receivables, non-current portion	147,389	65,736	147,389	65,736
Equity investments designated at fair value through other comprehensive income	242,077	238,974	242,077	238,974
Financial assets at fair value through profit or loss	59	209	59	209
	389,525	304,919	389,525	304,919
Financial liabilities				
Interest-bearing bank borrowings	454,700	456,517	454,700	456,517

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of trade receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2019 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an book measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding book measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Value technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/B multiple of peers	30 June 2019: 1.1 to 2.3 (31 December 2018: 1.1 to 2.0)	10% (31 December 2018: 10%) increase/decrease in multiple would result in increase/decrease in fair value by HK\$16,312,000 (31 December 2018: HK\$18,480,000)
		Discount for lack of marketability and control	30 June 2019: 40% (31 December 2018: 35%)	10% (31 December 2018: 10%) increase/decrease in discount would result in decrease/increase in fair value by HK\$10,875,000 (31 December 2018: HK\$8,510,000)

The discount for lack of marketability and control represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) <i>HK\$'000</i> (Unaudited)	Significant observable inputs (Level 2) <i>HK\$'000</i> (Unaudited)	Significant unobservable inputs (Level 3) <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Equity investments designated at fair value through other comprehensive income	58,865	–	183,212	242,077
Financial assets at fair value through profit or loss	59	–	–	59
	<u>58,924</u>	<u>–</u>	<u>183,212</u>	<u>242,136</u>

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) <i>HK\$'000</i> (Audited)	Significant observable inputs (Level 2) <i>HK\$'000</i> (Audited)	Significant unobservable inputs (Level 3) <i>HK\$'000</i> (Audited)	Total <i>HK\$'000</i> (Audited)
Equity investments designated at fair value through other comprehensive income	58,593	–	180,381	238,974
Financial assets at fair value through profit or loss	209	–	–	209
	<u>58,802</u>	<u>–</u>	<u>180,381</u>	<u>239,183</u>

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 (31 December 2018: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2018: Nil).

19. EVENTS AFTER THE REPORTING PERIOD

On 26 June 2019, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which, the Subscriber agreed to subscribe for a total of 250,000,000 shares of the Company at a subscription price of HK\$0.0785 per Subscription Share. On 9 July 2019, all the conditions set out in the Subscription Agreement have been fulfilled and the Subscription was completed. An aggregate of 250,000,000 Subscription Shares, representing approximately 5.85% of the issued share capital of the Company as at 9 July 2019 as enlarged by the Subscription, were issued to the Subscriber. For the details of the Subscription, please refer to the announcements of the Company dated 26 June 2019 and 9 July 2019.

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

As at 30 June 2019, 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	711,646,600 (L)	17.67%	37,725,148 (L)	750,354,548 (L)		18.63%
	Interest of spouse	982,800 (L)	0.02%	–			
Ms. Chan Wai Kay Katherine (Note 2)	Beneficial owner	58,290,400 (L)	1.45%	43,788,119 (L)	116,182,119 (L)		2.89%
	Interest of spouse	14,103,600 (L)	0.35%	–			
Mr. Wang Manquan (Note 3)	Beneficial owner	716,800 (L)	0.02%	30,314,851 (L)	31,031,651 (L)		0.77%
Mr. Jia Wenzeng (Note 4)	Beneficial owner	–	–	4,827,920 (L)	4,827,920 (L)		0.12%
Mr. Wu Dehsheng (Note 5)	Beneficial owner	–	–	3,143,762 (L)	3,143,762 (L)		0.08%

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

Notes:

1. Mr. Xu Shengheng (“Mr. Xu”) is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu, holds 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk is interested.
2. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 58,290,400 shares and 43,788,119 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. Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 14,103,600 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow is interested.
3. Mr. Wang Manquan is interested 716,800 Shares and 30,314,851 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 4,827,920 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 3,143,762 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 2019, 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 2019
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.379	13,024,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.379	19,087,129
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.379	1,871,288
		9 September 2012 to 8 September 2020	0.379	1,871,288
		9 September 2013 to 8 September 2020	0.379	1,871,285
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.379	1,684,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762

Save as disclosed above, as at 30 June 2019, 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 2019, 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 (Note 1)	Beneficial owner	1,190,000,000 (L)		29.55%	–	1,190,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	1,190,000,000 (L)		29.55%	–	1,190,000,000 (L)	29.55%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	982,800 (L)		0.02%	–	750,354,548 (L)	18.63%
	Interest of spouse	711,646,600 (L)		17.67%	37,725,148 (L)		

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

Notes:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP”), therefore, under the SFO, CECEP is deemed to be interested in 1,190,000,000 Shares.
2. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 982,800 Shares. Mr. Xu is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 711,646,600 Shares and 37,725,148 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 30 June 2019, 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 2019, options to subscribe for an aggregate of 486,182,851 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2019 were as follows:

Name	Date of grant of share options	As at 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2019	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
<u>Directors</u>									
Mr. Xu Shengheng	9 September 2010	13,024,158	–	–	–	13,024,158	–	9 September 2010 to 8 September 2020	0.379
	8 December 2016	24,700,990	–	–	–	24,700,990	–	8 December 2016 to 31 December 2020	0.267
Ms. Chan Wai Kay Katherine	9 September 2010	19,087,129	–	–	–	19,087,129	–	9 September 2010 to 8 September 2020	0.379
	8 December 2016	24,700,990	–	–	–	24,700,990	–	8 December 2016 to 31 December 2020	0.267
Mr. Wang Manquan	9 September 2010	1,871,288	–	–	–	1,871,288	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
	9 September 2010	1,871,288	–	–	–	1,871,288	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
	9 September 2010	1,871,285	–	–	–	1,871,285	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
	8 December 2016	24,700,990	–	–	–	24,700,990	–	8 December 2016 to 31 December 2020	0.267
Mr. Jia Wenzeng	9 September 2010	1,684,158	–	–	–	1,684,158	–	9 September 2010 to 8 September 2020	0.379
	8 December 2016	3,143,762	–	–	–	3,143,762	–	8 December 2016 to 31 December 2020	0.267
Mr. Wu Desheng	8 December 2016	3,143,762	–	–	–	3,143,762	–	8 December 2016 to 31 December 2020	0.267
<u>Employees</u>									
	9 September 2010	22,778,804	–	–	–	22,778,804	–	9 September 2010 to 8 September 2020	0.379
	9 September 2010	33,683,168	–	–	–	33,683,168	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
	9 September 2010	33,683,168	–	–	–	33,683,168	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
	9 September 2010	33,683,170	–	–	–	33,683,170	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
	8 December 2016	121,277,370	–	–	–	121,277,370	8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	0.267
	8 December 2016	121,277,371	–	–	–	121,277,371	8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	0.267
		<u>486,182,851</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>486,182,851</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, did not attend the annual general meeting held on 28 June 2019 due to his 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

The Directors confirmed that no information is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

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. Xu Shengheng, Ms. Wang Yan, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Yang Wei 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 Geothermal Industry Development Group Limited
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 13 August 2019

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.