



中國地能產業集團有限公司
CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

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

FINAL RESULT ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

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

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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.

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

FINAL RESULTS

The board of directors (“Directors”) of China Ground Source Energy Industry Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2015, together with the comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	<i>Notes</i>	2015 HK\$'000	2014 <i>HK\$'000</i>
Revenue	4	319,354	283,601
Cost of sales		<u>(199,621)</u>	<u>(196,314)</u>
Gross profit		119,733	87,287
Other income	5	96,995	62,001
Selling and distribution expenses		(28,931)	(23,669)
Administrative expenses		(121,798)	(97,810)
Fair value changes on investment properties		13,235	9,207
Other operating expenses		(946)	–
Impairment loss recognised in respect of trade receivables		(54,383)	(11,570)
Impairment loss recognised in respect of other receivables		(1,849)	–
Reversal of impairment loss recognised in respect of trade receivables in prior years		<u>1,260</u>	<u>15,450</u>
Profit from operations		23,316	40,896
Share of results of associates		(382)	92
Share of result of a joint venture		798	–
Gain on deregistration of subsidiaries		–	820
Loss on deemed disposal of an associate		–	(5,845)
Share-based payments		(7,747)	(16,865)
Finance costs	6	<u>(38,944)</u>	<u>(38,391)</u>
Loss before tax		(22,959)	(19,293)
Income tax expense	7	<u>(25,147)</u>	<u>(29,666)</u>
Loss for the year		<u>(48,106)</u>	<u>(48,959)</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(47,506)	(53,506)
Non-controlling interests		<u>(600)</u>	<u>4,547</u>
		<u>(48,106)</u>	<u>(48,959)</u>
Loss per share	9		
Basic (HK cents)		<u>(1.64)</u>	<u>(1.84)</u>
Diluted (HK cents)		<u>(1.64)</u>	<u>(1.84)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss for the year	<u>(48,106)</u>	<u>(48,959)</u>
Other comprehensive (expense) income		
<i>Items that will not be reclassified to profit or loss:</i>		
(Loss) gain on revaluation of leasehold land and buildings	<u>(8,138)</u>	<u>9,100</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating foreign operations	(46,608)	(29,176)
Fair value gains on available-for-sale investments	138	530
Share of other comprehensive expense of associates	(90)	(1,943)
Release of exchange translation reserve upon deregistration of subsidiaries	<u>—</u>	<u>(331)</u>
	<u>(46,560)</u>	<u>(30,920)</u>
Other comprehensive expense for the year, net of income tax	<u>(54,698)</u>	<u>(21,820)</u>
Total comprehensive expense for the year	<u>(102,804)</u>	<u>(70,779)</u>
Total comprehensive (expense) income attributable to:		
Owners of the Company	(100,903)	(73,920)
Non-controlling interests	<u>(1,901)</u>	<u>3,141</u>
	<u>(102,804)</u>	<u>(70,779)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Non-Current Assets			
Property, plant and equipment		335,183	287,654
Investment properties		373,770	383,961
Deposit paid for acquisition of land use rights		86,621	56,110
Goodwill		465,760	465,760
Intangible assets		–	–
Interests in associates		29,737	24,362
Interest in a joint venture		7,366	–
Available-for-sale investments		106,203	100,974
Prepayments		12,537	16,844
Deferred tax assets		26,890	18,110
		<u>1,444,067</u>	<u>1,353,775</u>
Current Assets			
Inventories		39,795	29,947
Properties held for sale under development		118,688	104,729
Deposit paid for acquisition of a subsidiary		77,685	–
Trade and retention receivables	<i>10</i>	226,336	168,266
Prepayments, deposits and other receivables		114,953	141,525
Amounts due from customers for contract work		297,086	343,659
Amount due from non-controlling interests		1,850	–
Amounts due from associates		12,612	15,130
Amounts due from related companies		1,224	728
Held-for-trading financial assets		59	3,872
Available-for-sale investments		102,625	124,930
Cash held at non-bank financial institutions		8,619	3,051
Short-term bank deposits		–	19,421
Bank balances and cash		136,199	309,814
		<u>1,137,731</u>	<u>1,265,072</u>
Current Liabilities			
Trade payables	<i>11</i>	182,368	136,200
Accrued liabilities, deposits received and other payables		173,969	152,322
Amounts due to customers for contract work		11,398	12,311
Amounts due to associates		–	12,446
Borrowings		477,326	–
Tax payable		139,030	115,477
		<u>984,091</u>	<u>428,756</u>
Net Current Assets		<u>153,640</u>	<u>836,316</u>
Total Assets less Current Liabilities		<u>1,597,707</u>	<u>2,190,091</u>

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-Current Liabilities		
Receipt in advance	5,615	9,446
Deferred income	8,091	8,525
Borrowings	–	499,721
Deferred tax liabilities	63,550	62,868
	<u>77,256</u>	<u>580,560</u>
Net Assets	<u>1,520,451</u>	<u>1,609,531</u>
Capital and Reserves		
Share capital	225,184	226,170
Reserves	1,250,844	1,342,429
Equity attributable to owners of the Company	1,476,028	1,568,599
Non-controlling interests	44,423	40,932
Total Equity	<u>1,520,451</u>	<u>1,609,531</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	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 2014	226,053	891,630	2,346	-	25,255	154,381	(1,694)	32,235	52,972	74,011	185,423	1,642,612	37,958	1,680,570
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	-	(53,506)	(53,506)	4,547	(48,959)
Other comprehensive income (expense) for the year:														
- Gain on revaluation of leasehold land and buildings	-	-	-	-	9,100	-	-	-	-	-	-	9,100	-	9,100
- Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	530	-	-	-	530	-	530
- Share of other comprehensive expense of associates	-	-	-	-	-	-	-	-	-	(1,943)	-	(1,943)	-	(1,943)
- Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	(27,770)	-	(27,770)	(1,406)	(29,176)
- Release of exchange translation reserve upon deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	(331)	-	(331)	-	(331)
Total other comprehensive income (expense) for the year	-	-	-	-	9,100	-	-	530	-	(30,044)	-	(20,414)	(1,406)	(21,820)
Total comprehensive income (expense) for the year	-	-	-	-	9,100	-	-	530	-	(30,044)	(53,506)	(73,920)	3,141	(70,779)
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(167)	(167)
Issue of shares upon exercise of share options	117	803	-	-	-	-	-	-	(281)	-	-	639	-	639
Repurchase of ordinary shares	-	-	-	(3,083)	-	-	-	-	-	-	-	(3,083)	-	(3,083)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	16,865	-	-	16,865	-	16,865
Lapse of share options	-	-	-	-	-	-	-	-	(752)	-	752	-	-	-
Appropriation	-	-	589	-	-	-	-	-	-	-	(589)	-	-	-
Dividends recognised as distribution	-	(14,514)	-	-	-	-	-	-	-	-	-	(14,514)	-	(14,514)
At 31 December 2014	<u>226,170</u>	<u>877,919</u>	<u>2,935</u>	<u>(3,083)</u>	<u>34,355</u>	<u>154,381</u>	<u>(1,694)</u>	<u>32,765</u>	<u>68,804</u>	<u>43,967</u>	<u>132,080</u>	<u>1,568,599</u>	<u>40,932</u>	<u>1,609,531</u>

Attributable to owners of the Company

	Assets											Share-based Exchange		Non-		Total equity
	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			
	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 2015	226,170	877,919	2,935	(3,083)	34,355	154,381	(1,694)	32,765	68,804	43,967	132,080	1,568,599	40,932	1,609,531		
Loss for the year	-	-	-	-	-	-	-	-	-	-	(47,506)	(47,506)	(600)	(48,106)		
Other comprehensive (expense) income for the year																
– Loss on revaluation of leasehold land and buildings	-	-	-	-	(8,138)	-	-	-	-	-	-	(8,138)	-	(8,138)		
– Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	138	-	-	-	138	-	138		
– Share of other comprehensive expense of associates	-	-	-	-	-	-	-	-	-	(90)	-	(90)	-	(90)		
– Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	(45,307)	-	(45,307)	(1,301)	(46,608)		
Total other comprehensive (expense) income for the year	-	-	-	-	(8,138)	-	-	138	-	(45,397)	-	(53,397)	(1,301)	(54,698)		
Total comprehensive (expense) income for the year	-	-	-	-	(8,138)	-	-	138	-	(45,397)	(47,506)	(100,903)	(1,901)	(102,804)		
Contribution by non-controlling interest upon incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	5,392	5,392		
Issue of shares upon exercise of share options	4,337	26,585	-	-	-	-	-	-	(6,018)	-	-	24,904	-	24,904		
Repurchase of ordinary shares	(5,323)	(18,786)	-	(210)	-	-	-	-	-	-	-	(24,319)	-	(24,319)		
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	7,747	-	-	7,747	-	7,747		
Lapse of share options	-	-	-	-	-	-	-	-	(19,391)	-	19,391	-	-	-		
At 31 December 2015	<u>225,184</u>	<u>885,718</u>	<u>2,935</u>	<u>(3,293)</u>	<u>26,217</u>	<u>154,381</u>	<u>(1,694)</u>	<u>32,903</u>	<u>51,142</u>	<u>(1,430)</u>	<u>103,965</u>	<u>1,476,028</u>	<u>44,423</u>	<u>1,520,451</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 years.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests in prior years.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL AND BASIS OF PREPARATION

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 of the Company are disclosed in the “Corporate Information” section to the annual report.

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 People’s Republic of China (the “PRC”) with RMB as their functional currency.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) AND NEW HONG KONG COMPANIES ORDINANCE

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“HKAS(s)”), amendments and Interpretations (“Int(s)”), issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Amendments to HKFRS	Annual improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRS	Annual improvements to HKFRSs 2011 – 2013 Cycle
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions

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

Annual improvements to HKFRSs 2010 – 2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company considered that the application of the amendments included in the Annual Improvements to HKFRSs 2010-2012 Cycle has had no material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011 – 2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The amendments are applied prospectively. The directors of the Company considered that the application of the amendments included in the Annual Improvements to HKFRSs 2011-2013 Cycle has had no material impact in the Group's consolidated financial statements.

Part 9 of Hong Kong Companies Ordinance (Cap. 622)

In addition, the annual report requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE AND SEGMENT INFORMATION

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Sales and installation of shallow ground source energy utilisation system	290,660	259,512
Maintenance services for shallow ground source energy utilisation system	8,160	8,959
Rental income (<i>Note (i)</i>)	<u>20,534</u>	<u>15,130</u>
	<u>319,354</u>	<u>283,601</u>

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Gross rental income	20,534	15,130
Less: direct operating expenses from investment properties that generated rental income during the year	<u>(1,080)</u>	<u>(2,141)</u>
Net rental income	<u>19,454</u>	<u>12,989</u>

The Group's reportable and operating segments, based on information reported to the chief operating decision maker ("CODM"), being the chief executive of the Company, for the purpose of resource allocation and performance assessment focuses 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) Securities investment and trading segment – trading of securities and other types of investment; and
- (c) Properties investment and development segment – investment in properties for its potential rental income and sales.

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

Segment revenue and results

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

For the year ended 31 December 2015

	Shallow ground source energy <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
External sales	<u>298,820</u>	<u>–</u>	<u>20,534</u>	<u>319,354</u>
Segment results	<u>42,702</u>	<u>14,551</u>	<u>32,689</u>	<u>89,942</u>
Share of results of associates				(382)
Share of result of a joint venture				798
Unallocated other income				4,966
Unallocated expenses				(79,339)
Unallocated finance costs				<u>(38,944)</u>
Loss before tax				<u>(22,959)</u>

For the year ended 31 December 2014

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent 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, gain on deregistration of subsidiaries, central administration costs, share-based payments and interest on borrowings. This is the measure reported to the CODM 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 year (2014: Nil).

Segment assets and liabilities

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

Segment assets

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Shallow ground source energy	1,377,736	1,414,779
Securities investment and trading	288,908	231,699
Properties investment and development	<u>690,657</u>	<u>578,663</u>
Total segment assets	2,357,301	2,225,141
Unallocated corporate assets	<u>224,497</u>	<u>393,706</u>
Consolidated total assets	<u><u>2,581,798</u></u>	<u><u>2,618,847</u></u>

Segment liabilities

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Shallow ground source energy	331,427	268,491
Securities investment and trading	3,429	3,152
Properties investment and development	<u>46,585</u>	<u>47,161</u>
Total segment liabilities	381,441	318,804
Unallocated corporate liabilities	<u>679,906</u>	<u>690,512</u>
Consolidated total liabilities	<u><u>1,061,347</u></u>	<u><u>1,009,316</u></u>

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, amounts due from non-controlling interests, cash held at non-bank financial institutions, short-term bank deposits, bank balances and cash; and
- all liabilities are allocated to operating segments other than amounts due to associates, borrowings, deferred tax liabilities and tax payable.

Other segment information

For the year ended 31 December 2015

	Shallow ground source energy <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results or segment assets:				
Additions to non current assets (<i>Note</i>)	126,543	–	–	126,543
Development costs paid for investment properties under construction	–	–	49,399	49,399
Impairment loss recognised in respect of trade receivables	54,383	–	–	54,383
Impairment loss recognised in respect of other receivables	1,849	–	–	1,849
Fair value changes on held-for-trading financial assets	–	946	–	946
Reversal of impairment loss recognised in respect of trade receivables in prior years	(1,260)	–	–	(1,260)
Depreciation	14,911	–	304	15,215
Fair value changes on investment properties	–	–	(13,235)	(13,235)
Share-based payments	7,747	–	–	7,747
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:				
Interests in associates	29,737	–	–	29,737
Interest in a joint venture	7,366	–	–	7,366
Share of result of a joint venture	(798)	–	–	(798)
Share of results of associates	382	–	–	382
Interest income	(505)	–	–	(505)
Interest expenses	38,944	–	–	38,944
Income tax expense	21,082	–	4,065	25,147

For the year ended 31 December 2014

	Shallow ground source energy <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results or segment assets:				
Additions to non current assets (Note)	119,768	–	–	119,768
Development costs paid for investment properties under construction	–	–	58,287	58,287
Impairment loss recognised in respect of trade receivables	11,570	–	–	11,570
Fair value changes on held-for-trading financial assets	–	(580)	–	(580)
Reversal of impairment loss recognised in respect of trade receivables in prior years	(15,450)	–	–	(15,450)
Depreciation	8,618	–	882	9,500
Fair value changes on investment properties	–	–	(9,207)	(9,207)
Share-based payments	16,865	–	–	16,865
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:				
Interests in associates	24,362	–	–	24,362
Share of results of associates	(92)	–	–	(92)
Interest income	(5,354)	–	–	(5,354)
Interest expenses	38,391	–	–	38,391
Income tax expense	25,141	–	4,525	29,666

Note:

Non-current assets excluded available-for-sale investments and deferred tax assets.

Geographical information

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

Information about major customers

During the years ended 31 December 2014 and 2015, no single external customer contributed over 10% of the Group's revenue.

5. OTHER INCOME

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Bad debts recovery	3,670	1,110
Bank interest income	505	5,354
Change in fair value of held-for-trading financial assets	–	580
Compensation received	582	366
Consultancy fee income	–	1,205
Dividend income from held-for-trading financial assets	86	–
Exchange gains	3,994	–
Government grants (<i>Note a</i>)	71,836	45,461
Investment income on available-for-sale investment	15,411	–
Investment income from terminated investment plan in a joint venture (<i>Note b</i>)	–	3,210
Sale of scrap materials	444	943
Waiver of payables	–	3,435
Others	467	337
	<u>96,995</u>	<u>62,001</u>

Notes:

- (a) Included in the amount of government grants recognised during the year ended 31 December 2015, approximately HK\$71,429,000 (2014: HK\$45,461,000) were received in respect of certain research projects of the Group, and the Group fulfilled the relevant granting criteria and recognised the amount as other income immediately during the year. Government grants previously received of approximately HK\$407,000 (2014: Nil) were recognised as deferred income utilised during the year.
- (b) On 19 April 2013, the Group entered into the joint venture contract (“JV Contract”) with Zhejiang CECEP Green Construction Environmental Protection Technology Ltd (“Zhejiang CECEP”), a fellow subsidiary of the substantial shareholder of the Group, for the formation of a company in the PRC (“JV Company”). The Group has paid a deposit amounted to RMB30,000,000 (equivalent to approximately HK\$38,424,000) for the formation of JV Company. According to the JV Contract, the JV Contract will be lapsed if the approval of independent shareholders were not obtained on or before 31 December 2013. As at 31 December 2013, the shareholder’s meeting was not yet convened and the JV contract was lapsed accordingly.

On 14 January 2014, the Group entered into the sale and purchase agreement with Tianjin Rong Chuang Ao Cheng Investment Company Limited (“Rong Chuang”), a company independent to the Group incorporated in the PRC, for the sale and purchase of the rights to inject capital into the JV Company up to 49% (“Equity Interest”). The total consideration for the Equity Interest was the deposit already placed amounted to RMB30,000,000 (equivalent to approximately HK\$38,424,000) plus an amount equal to 10.73% per annum on the deposit calculated from the date of the Group’s contribution of RMB30,000,000 to the registered capital of the JV Company to the date of the Rong Chuang’s payment of the deposit to the Group (the “Premium”).

In March 2014, the deposit amounted to RMB30,000,000 (equivalent to approximately HK\$38,424,000) together with an interest income of RMB2,549,000 (equivalent to approximately HK\$3,210,000) have been fully repaid by Rong Chuang.

6. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest on borrowings	<u>38,944</u>	<u>38,391</u>

7. INCOME TAX EXPENSE

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax:		
PRC EIT	30,604	24,530
Over-provision in prior years:		
PRC EIT	-	(3,703)
Deferred tax:	<u>(5,457)</u>	<u>8,839</u>
	<u>25,147</u>	<u>29,666</u>

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI during the years ended 31 December 2014 and 2015.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2014 and 2015.

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

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprises in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2015 (2014: 15%).

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss before tax	<u>(22,959)</u>	<u>(19,293)</u>
Tax at the domestic income tax rate	(2,465)	(1,060)
Over-provision in prior years	–	(3,703)
Tax effect of share of results of associates	96	(23)
Tax effect of share of result of a joint venture	(200)	–
Tax effect of expenses not deductible for tax purpose	13,587	35,357
Tax effect of tax losses not recognised	10,520	–
Tax effect of income not taxable for tax purpose	(599)	(648)
Income tax on concessionary rate	<u>4,208</u>	<u>(257)</u>
Tax expense for the year	<u><u>25,147</u></u>	<u><u>29,666</u></u>

8. DIVIDENDS

During the year ended 31 December 2015, no final dividend in respect of the year ended 31 December 2014 was declared and paid to the shareholders of the Company.

During the year ended 31 December 2014, final dividend of HK\$14,514,000 of HK0.5 cents per ordinary share in respect of the year ended 31 December 2013 was declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2015 has been proposed by the directors of the Company.

9. LOSS PER SHARE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>(47,506)</u>	<u>(53,506)</u>
	2015 '000	2014 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,898,614</u></u>	<u><u>2,903,468</u></u>

Note:

The computation of diluted earnings per share does not assume the exercise of the Company's share options because their exercise would result in a decrease in loss per share for the year ended 31 December 2015.

10. TRADE AND RETENTION RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade receivables	215,331	122,997
Less: allowance for doubtful debts	<u>(58,651)</u>	<u>(6,301)</u>
	156,680	116,696
Retention receivables	<u>69,656</u>	<u>51,570</u>
	<u>226,336</u>	<u>168,266</u>

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 90 days	48,485	36,164
91 to 180 days	52,347	34,808
181 to 365 days	11,140	8,530
Over 365 days	<u>44,708</u>	<u>37,194</u>
	<u>156,680</u>	<u>116,696</u>

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK\$106,328,000 (2014: HK\$79,258,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Over 120 days	61,620	42,064
Over 365 days	44,708	37,194
	<u>106,328</u>	<u>79,258</u>

The Group's neither past due nor impaired trade receivables of approximately HK\$50,352,000 (2014: HK\$37,438,000) mainly represented sales made to creditworthy customers for whom there was no recent history of default.

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
At 1 January	6,301	10,416
Exchange realignment	(773)	(235)
Impairment losses recognised	54,383	11,570
Impairment losses reversed	(1,260)	(15,450)
At 31 December	<u>58,651</u>	<u>6,301</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$58,651,000 (2014: HK\$6,301,000) which have been placed in severe financial difficulties.

11. TRADE PAYABLES

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 90 days	38,658	14,273
91 to 180 days	17,517	11,965
181 to 365 days	36,412	9,024
Over 365 days	89,781	100,938
	182,368	136,200

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

12. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2016, a share transfer agreement was entered into between the Company's indirect wholly-owned subsidiary, 北控恒有源科技源有限公司 (“北控恒有源”) and 北京市四博連通用機械新技術公司 (“北京市四博連”), pursuant to which 北控恒有源 agreed to purchase and 北京市四博連 agreed to sell, the 5.387% equity interest in 恒有源科技發展集團有限公司 at the consideration of RMB15,750,000 (equivalent to approximately HK\$18,900,000).

On 2 February 2016, the acquisition has been completed. Thereafter, 恒有源科技發展集團有限公司 becomes an indirect wholly-owned subsidiary of the Group.

FINANCIAL REVIEW

For the year ended 31 December 2015, the loss attributable to the owners of the Company amounted to approximately HK\$47.506 million and revenue amounted to HK\$319.354 million as compared with the loss attributable to the owners of the Company amounted to HK\$53.506 million and revenue amounted to approximately HK\$283.601 million for the year ended 31 December 2014.

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2015 and the year ended 31 December 2014.

	Year ended 31 December 2015		Year ended 31 December 2014	
	HK\$'000	%	HK\$'000	%
Turnover:				
– Shallow ground source energy	298,820	94	268,471	95
– Properties investment and development	<u>20,534</u>	<u>6</u>	<u>15,130</u>	<u>5</u>
– Total turnover	<u><u>319,354</u></u>	<u><u>100</u></u>	<u><u>283,601</u></u>	<u><u>100</u></u>

OPERATION RESULTS

Total revenue from operations for the year ended 31 December 2015 was approximately HK\$319.354 million as compared with HK\$283.601 million for the year ended 31 December 2014. Revenue from the traditional shallow ground source energy utilisation systems has increased during the year due to a marketing center was set up in September 2015 which strengthened sale and promotion accordingly. Besides more sales staff were recruited, hence, the Group secured additional projects. Thus, the revenue increased during the year.

During the year ended 31 December 2015, the Group recorded a net loss of approximately HK\$48.106 million compared with net loss of approximately HK\$48.959 million for the year ended 31 December 2014.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2015 was approximately HK\$119.733 million, represented the gross profit margin of 37.5% (2014: approximately HK\$87.287 million, represented the gross profit margin of 30.8%). The improvement of gross profit margin was mainly due to the fact that operation and maintenance centers were set up in Xuzhou, Pizhou and Dalian in order to strengthen the cost control in the districts outside Beijing. Furthermore, less provision was made for the amounts due from customers for contract work during the year as compared with that of last year.

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year increased by approximately HK\$5.262 million, or 22% as compared with that of the year ended 31 December 2014. The selling and distribution expenses increased was mainly attributable to the increase in marketing staff for the promotion of the business, especially Ground Source Heating Devices, hence wages and related selling and distribution expenses rose this year.

Administrative expenses amounted to approximately HK\$121.798 million and HK\$97.810 million for the years ended 31 December 2015 and 2014 respectively. The increase in administrative expenses as compared with last financial reporting period was mainly due to the increase in depreciation and the consultancy services fee.

During the year ended 31 December 2015, the Group incurred share-based payments of HK\$7.747 million which was due to the fact that the Group granted share options to directors, officers, employees and business partners in previous year.

SEGMENTAL INFORMATION

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

Shallow ground source energy

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

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

Securities investment and trading

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

Properties investment and development

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

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

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2015 was approximately HK\$153.640 million (2014: approximately HK\$836.316 million). As at 31 December 2015, the Group had cash and bank balances of approximately HK\$136.199 million (2014: approximately HK\$309.814 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2015, no group assets have been charged (2014: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimize exposure to foreign exchange risks.

As at 31 December 2015, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing bank loans) to the equity (including all capital and reserves) of the Company, increased to 32.3 % as at 31 December 2015 (2014: 31.9%). The gearing ratio was maintained at similar level as compared with last year.

EMPLOYEES

As at 31 December 2015, the Group has approximately 670 employees (2014: approximately 600). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

SHARE OPTION SCHEMES

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. The detailed disclosures relating to the Company's share option scheme are set out in note 44 to the consolidated financial statements of the Company's Annual Report.

CONTINGENT LIABILITIES

As at 31 December 2015, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2015 (2014: Nil).

CAPITAL STRUCTURE

On 2 June 2015, 6 July 2015 and 6 August 2015, options were exercised to subscribe for totally 55,608,000 shares in the Company at a consideration of approximately HK\$24,904,000 of which approximately HK\$4,337,000 was credited to share capital and the balance of approximately HK\$20,567,000 was credit to the share premium. All the issued shares rank pari passu with the existing shares.

During the year ended 31 December 2015, 59,688,000 ordinary shares were repurchased and cancelled prior to the end of the reporting period with the highest price of HK\$0.41 and the lowest price of HK\$0.28. As at 31 December 2015, the total number of issued and fully paid shares of 2,891,687,117 which included 9,344,000 ordinary shares repurchased prior to the end of the reporting period but cancelled subsequent to the end of the reporting period with the highest price of HK\$0.36 and the lowest price of HK\$0.33.

During the year ended 31 December 2015, 8,560,000 ordinary shares repurchased during the year ended 31 December 2014 were cancelled.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitment are set out in note 43 to the consolidated financial statements of the Company's Annual Report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

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

MAJOR ACQUISITIONS AND DISPOSALS

Details of major acquisitions and disposal transactions are set out in note 42 to the consolidated financial statement of the Company’s annual report.

BUSINESS REVIEW AND OUTLOOK

The Group makes dedicated efforts on the research and development of shallow ground source energy and its application in providing heating for buildings as substitute energy. With its original technology of single-well ground source energy collection technology, the Group has achieved industrialized development in using ground source energy to produce heating for buildings in a combustion-free way. The efforts is by nature a contributor to the ecological civilization construction and a propeller to the radical escalation of heating industry from a traditional combustion-based heating to an emerging industry featuring intelligent and integrated heating and cooling with ground source energy.

Shallow ground source energy is a low-grade and renewable heat energy of lower than 25°C normally lying around 200 meters under the ground surface. With the invention of heat pumps, ground source energy becomes substitute energy of heating for buildings.

The single-well heat circulation technology for ground source energy collection uses water as media to circulate in an entirely closed loop to achieve natural exchange of heat at the same source under dynamic equilibrium force. Rejection is fully made at the same geological layer and heat is extracted via pressure difference. As such, even in differentiated geological conditions, renewable shallow ground source energy of under 25°C can be gathered in safe, efficient, economical and pollution-free way.

In the reviewed period, Chinese government at all levels has reinforced its efforts in environmental improvement, especially in Beijing, Tianjin and Hebei for treating smog in a more scientific way. A major direction articulated by the National Development and Reform Committee for the second batch of pilot cities and townships is to promote intelligent heating and forcefully push forward the growth of emerging industry of integrated heating and cooling, namely to use shallow ground source

energy collected by single-well circulation technology to produce heating and cooling for buildings in a combustion-free way. This will not only substantially boom up the ratio taken by renewable energy in the local energy consumption mix, but also radically solve the air pollution problem caused by combustion, and therefore remarkably uplift the living standard of urban and rural residence. (Quote from NDRC Doc No. [2015] 2665)

Boasting a full range of combustion-free heating products which are based on ground source energy (i.e., intelligent heating products), the Company has acquired the full capacity to meet all heating needs of buildings that are served by traditional heating. Up to now, the Company has outstood itself by realizing scaled demonstrative development and commercialization in intelligent heating for buildings that result in effective contribution to smog curbing.

Firstly, the HYY Ground Energy Heat Pump Environmental System, as an equivalence to the economical central heating system in the United States is a central heating system based on ground source energy to produce combustion-free intelligent heating for buildings. Shallow ground source energy, as a substitute energy is utilized to achieve building heating in a way free from pollution and emission. This is also a realization of differentiated utilization based on energy ratings. An outstanding feature of the system is the systematic control on heat provision to meet differentiated need of end users, while safeguarding smooth operation of the system and baseline energy consumption level.

Secondly, the HYY Heating Device for self-heating in rural areas is embedded with Chinese traditional value of being highly economical in energy consumption. By using ground source energy, the device relies on electric power instead of coal to achieve highly effective heating for rural households. Being user friendly, the HYY Heating Device manages to produce targeted heating for independent spaces in a measurable and economical way, bringing tangible benefits to users. The Device can not only ensure quality heating, but can be easily replicated and operated. Therefore, it is highly adaptable to differentiated need of various energy consumption behaviors, thus can saturate to the extent possible every individual heating request with lowered operation cost.

Thirdly, the HYY50-900MW Distributed Heating and Cooling Station, equivalent to traditional central heating stations in cities and townships is a full embodiment of graded energy utilization. The layout plan of heating stations shall be based on regional plans for energy consumption. The station is equipped with ground source energy collection points and heat pump stations and the system is mainly composed of five parts, namely Source, Station, Networks, Automation Control and Terminals. By Source, it means the sites for ground source energy collection, which is based on the Single-well Circulation of Heat Exchange Technology. By Station, it refers to heat pump stations that transfer shallow ground source energy into heat or cool power as needed by buildings. It simulates the boilers or coolers in traditional heating industry. Networks is a small intra-net of ground source energy that connects adjacent or differentiated stations to establish mutual backup and complement among individual and closed circular systems of the stations. Automation Control based on Intranet+ is the controlling system for the entire intelligent heating system. It works to control, manage and measure the heating as needed. Terminals are the terminal systems to serve end users.

Moreover, in cooperation with the Sichuan Changhong Company and by putting into full play of respective competitiveness and entitlements, we have set up module-type bases for systematic production of HYY Heating Device. After product upgrading, reliability and stability of Heating Device are further enhanced. The Device is selected as a recommended product that can achieve high efficiency in replacing coal consumption with electricity, and therefore included in the 2015 Product Catalogue of Beijing Heating Enterprises in heading on the Move of Reducing and Replacing Coals.

In 2015, against the sluggish economic backdrop in the world and the downturn risk in Chinese economy, we have made unremitting efforts toward rapid expansion of intelligent heating (combustion-free and ground energy-based) for buildings, by further solidifying foundations, continuously improving business modalities and constantly refining development route. In the past one year, we have been improving our product series and business modalities in correspondence to new update of market needs, and achieved steady growth and business expansion.

Looking into the future, the Company will continue to let technological innovation lead the way to growth. To boost internal capacity building of the company, we will keep on to the Code of Conduct for employees, putting working safety at the priority and industrial standards at the core to further consolidate basis and reinforce performance-based practices. In terms of external development, the Company will continue to closely follow market update and seize the current opportune chance to enlarge its market share in integrated heating and cooling sector by upgrading and refining its operation modes and promote energy revolution in building heating industry by expanding the application of shallow ground source energy.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. During the Review Period, the Company has complied with the Code except for the deviations which are explained as follows:—

Under code provision A.2.1 of the Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Following Mr. Zheng Qiyu retired from the chairman of the Company on 12 May 2015, Mr. Liu Dajun was appointed as Joint Chairman of the Board and Chief Operating Officer and Mr. Xu Shengheng was appointed as Joint Chairman of the Board and Chief Executive Officer. Although the roles of chairman and chief executive officer were not separate, we considered that, to a certain extent, balance of power and authority can be achieved by the appointment of Mr. Liu Dajun and Mr. Xu Shengheng as Joint Chairman of the Board. We also considered that it has sufficient manpower to satisfy the needs of management of the Board and the day-to-day management of business.

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

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

Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, and Mr. Wu Desheng, the independent non-executive Director, did not attend the annual general meeting held on 12 May 2015 due to their engagement in other business.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2015 (the "Review Period") and has provided advice and comments thereon. The Audit Committee held five meetings during the period under review.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on the preliminary announcement.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the period under review, the directors have complied with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (“AGM”) will be held on 30 May 2016. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

Closure of Register of Members

For determining the identity of the shareholders to attend and vote at the AGM, the register of members of the Company will be closed from 27 May 2016 to 30 May 2016 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 26 May 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Review Period, 69,032,000 shares of US\$0.01 each were repurchased by the Company at prices ranging from HK\$0.28 to HK\$0.41 per share through the Stock Exchange.

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

Hong Kong, 30 March 2016

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