



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



First Quarterly Report 2016

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

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

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

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

This report, 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 report 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 report misleading.

HIGHLIGHTS

Revenue for the three months ended 31 March 2016 (the “Review Period”) amounted to approximately HK\$137,668,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,436,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and for the three months ended 31 March 2015.

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
– Shallow ground source energy	133,993	86,229
– Properties investment	3,675	3,428
	137,668	89,657
Profit for the period	2,436	2,217
Profit attributable to owners of the Company	2,836	2,429

During the Review Period, the Group's revenue amounted to approximately HK\$137,668,000 which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$89,657,000 for the corresponding period last year. The revenue increased by approximately HK\$48,011,000 as compared with that of corresponding period last year. The Group's gross profit margin decreased from 46.4% in last corresponding period to 23.2% in the current period, it was mainly attributable to the fact that the Group built certain demonstration projects in various districts with low gross profit during this quarter. Although the number of projects and the revenue increased, the overall gross profit margin of the Group as compared with the corresponding period last year had substantial decrease resulted by these low gross profit contracts.

Other income increased from approximately HK\$14,035,000 in the corresponding period last year to approximately HK\$19,455,000 for the three months ended 31 March 2016. The increase was mainly attributable to the one-off government incentives for development of the integration of heating and cooling emerging industry for the Review Period.

Selling and distribution expenses amounted to approximately HK\$8,067,000 and HK\$6,804,000 for the three months ended 31 March 2016 and 2015 respectively. The selling and distribution expenses in the Review Period increased as compared with the corresponding period last year due to the enhancement of the promotion and marketing activities by the Group during the Review Period.

During the Review Period, administrative expenses increased by approximately HK\$1,069,000, or 4% as compared with that of three months ended 31 March 2015. Administrative expenses increased was mainly attributable to the increase in staff costs.

Finance costs amounted to HK\$9,335,000 for the three months ended 31 March 2016 as compared with approximately HK\$10,708,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Profit for the Review Period (for the three months ended 31 March 2016) was approximately HK\$2,436,000, whereas it was HK\$2,217,000 for the corresponding period in last year.

BUSINESS REVIEW AND OUTLOOK

The Company, through its subsidiary Ever Source Science and Technology Development Group Co., Ltd. (“HYY”), focuses on the research and promotion of the development and utilization of shallow ground source energy as alternative energy for providing heating for buildings. HYY possessing the research and development, ground source energy collection, system design, equipment manufacturing, engineering installation, operation and maintenance assurance, public service, can provide a total solution to its customers for combustion-free heating supply of Integrated Heating and Cooling with ground source energy. The main products include HYY Heating Device as the self-heating system, Ground Energy Heat Pump Environmental System for central heating, HYY50-900MW Distributed Heating and Cooling Station for heating of cities and townships. Up to now, we have promoted the application and usage in Beijing and expanded to all regions except Hainan, Hong Kong, Macau and Taiwan in our country and to be able to achieve the provision of intelligent heating with shallow ground source energy without combustion for over 13 million square meters of building area, annual savings of 411,200 tons of standard coal.

During the Review Period, the Group has actively constructed demonstration projects for HYY Heating Device and HYY Ground Energy Heat Pump Environmental System in different regions, including Ningxia, Handan, Tianjin, etc. With an aim to show practical application examples and their effectiveness which will help promoting the Company’s different type of ground source energy collection systems and developing its market in different areas. Some of the projects are in cooperation with local government purporting to effectively promote ground source energy from the government level and push forward the relevant policy formulation, thereby it’s expected the future potential for business development will be broader.

In addition, our country has also made it clear that one of the main task for construction of cities and townships is intelligent heating: to promote shallow ground source energy collected by single-well circulation heat exchange technology to produce heating for buildings in a combustion-free way and forcefully push forward the growth of emerging industry of integrated heating and cooling. 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). Hence, the Group actively submit report to relevant departments proposing heating provision in the rural area of Beijing by using shallow ground source energy, forcefully promoting heating without combustion in order to solve the haze problem.

During the Review Period, Beijing Enterprises Ever Source Technology Development Co., Ltd. (“Beijing Ever Source”), the Company’s wholly-owned subsidiary, and Beijing Sibolian General Mechanical New Technology Company (“Sibolian”) entered into an equity transfer agreement. Beijing Ever Source acquired approximately 5.387% equity interest of HYY from Sibolian. Upon completion of the share transfer, HYY became a wholly owned subsidiary of the Company. As HYY is the main businesses operation unit of the Company, it is considered that HYY being wholly-owned by the Company will be more beneficial for its further development.

On 20-21 April 2016, the 10th China New Energy International Forum by the National Federation of New Energy Chamber of Commerce, was held at the Beijing National Convention Center. Over 400 participants including leaders from the national energy authorities, foreign government officials, representatives of international organizations, local and foreign scholars and representatives of well-known enterprises attended the summit. During the period, the organizer has organized exhibition-cum-press conference for Ground Source Energy Heating Technology Achievement of Intelligent Heating with Combustion-free for Buildings. At the conference, industry experts introduced the existing status and future prospects of the usage of shallow geothermal energy in our country. Representatives of HYY also participated the conference and introduced to the participants about the application example of single well heat exchange collection system and answered questions from reporters.

On the other hand, with an aim to promote the development of the geothermal industry, the New Energy and Renewable Energy Division of National Energy Administration has lined up with ten entities in early March to carry out the research and division of tasks for the development and utilization of geothermal energy under “Thirteenth Five-Year Plan”. One of the research topics is industrial development of exploitation and utilization of shallow ground source energy which shows that the state has attached more importance to shallow ground source energy development and utilization.

We expect the opportunities for industry of development and utilization of shallow ground source energy is vast, the Company will try its utmost to be innovative on scientific research, comprehensive and diversified for products, enhancing on marketing and expansion, promoting close communication and cooperation with the government which will lay a good foundation for the Group’s future development. The Group will seize this unprecedented opportunity to bring a leap forward development for the Company.

FINANCIAL RESULTS

The Board of Directors (the "Board") of China Ground Source Energy Industry Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2016 together with the unaudited comparative figures for the corresponding periods in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2016

	Notes	Three months ended 31 March	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	2	137,668	89,657
Cost of sales		(105,751)	(48,069)
Gross profit		31,917	41,588
Other income		19,455	14,035
Selling and distribution expenses		(8,067)	(6,804)
Administrative expenses		(27,864)	(26,795)
Profit from operations		15,441	22,024
Share of results of associates		(669)	(896)
Share of result of a joint venture		(584)	–
Share-based payments		–	(4,276)
Finance costs	3	(9,335)	(10,708)
Profit before tax		4,853	6,144
Income tax expense	4	(2,417)	(3,927)
Profit for the period	5	2,436	2,217

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the three months ended 31 March 2016

	Note	Three months ended 31 March	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Other comprehensive income (expense) for the period:			
Fair value gains on available-for-sale investments		1,120	365
Share of other comprehensive expense of associates		(7)	(7)
Share of other comprehensive expense of a joint venture		(6)	–
Exchange differences arising on translation of foreign operation		8,323	754
Total other comprehensive income for the period		9,430	1,112
Total comprehensive income for the period		11,866	3,329
Profit (loss) attributable to:			
Owners of the Company		2,836	2,429
Non-controlling interests		(400)	(212)
		2,436	2,217
Total comprehensive income (expense) attributable to:			
Owners of the Company		12,154	3,495
Non-controlling interests		(288)	(166)
		11,866	3,329
Earnings per share	7		
Basic (HK cents)		0.098	0.084
Diluted (HK cents)		0.098	0.084

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Listing Rules) and with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2015.

The Group has adopted new and amended standards and interpretations of HKFRSs which are mandatory for the accounting periods beginning on or after 1 January 2016 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated first quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

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

2. REVENUE

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 is as follows:

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Shallow ground source energy utilisation system	133,993	86,229
Rental income	3,675	3,428
	137,668	89,657

3. FINANCE COSTS

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings	9,335	10,708

4. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax	2,417	3,927

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 March 2016 (2015: Nil).

PRC enterprise income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 31 March 2016.

5. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of sales	105,751	48,069
Staff costs (including directors' emolument)	22,367	19,045
Depreciation and amortisation	2,612	6,526
Minimum lease payments under operating leases in respect of land and buildings	2,119	1,947

6. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of any dividend for the three months ended 31 March 2016 (2015: nil).

7. EARNINGS PER SHARE

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

	Three months ended	
	31 March	
	2016	2015
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company		
for the purpose of basic and diluted earnings per share	2,836	2,429
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose		
of basic earnings per share	2,876,871	2,883,751
Effect of dilutive potential ordinary shares:		
Share options (<i>note</i>)	–	–
Weighted average number of ordinary shares for the purpose		
of diluted earnings per share	2,876,871	2,883,751

Note:

The calculation of diluted earnings per share for the three months ended 31 March 2016 and 2015 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the three months ended 31 March 2016 and 2015.

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2016

	Attributable to owners of the Company											Non-controlling interests	Total equity	
	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
	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
At 1 January 2015 (audited)	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
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	2,429	2,429	(212)	2,217
Other comprehensive income (expense) for the period:														
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	365	-	-	-	365	-	365
Share of other comprehensive expense of an associate	-	-	-	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	708	-	708	46	754
Total other comprehensive income for the period	-	-	-	-	-	-	-	365	-	701	-	1,066	46	1,112
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	365	-	701	2,429	3,495	(166)	3,329
Cancellation of repurchased ordinary shares	(1,605)	(5,863)	-	3,083	-	-	-	-	-	-	-	(4,385)	-	(4,385)
Repurchase of ordinary shares	-	-	-	(1,904)	-	-	-	-	-	-	-	(1,904)	-	(1,904)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	4,276	-	-	4,276	-	4,276
Lapse of share option	-	-	-	-	-	-	-	-	(19,392)	-	19,392	-	-	-
At 31 March 2015 (unaudited)	224,565	872,056	2,935	(1,904)	34,355	154,381	(1,694)	33,130	53,688	44,668	153,901	1,570,081	40,766	1,610,847

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (Continued)

For the three months ended 31 March 2016

	Attributable to owners of the Company													Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Treasury shares	Assets revaluation	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total			
	HK\$'000	HK\$'000 (Note a)	HK\$'000 (Note b)	HK\$'000 (Note c)	HK\$'000	HK\$'000 (Note d)	HK\$'000 (Note e)	HK\$'000 (Note f)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016 (audited)	225,184	885,718	2,935	(3,293)	26,217	154,381	(1,694)	32,903	51,142	(1,430)	103,965	1,476,028	44,423	1,520,451	
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	2,836	2,836	(400)	2,436	
Other comprehensive income (expense) for the period:															
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	1,120	-	-	-	1,120	-	1,120	
Share of other comprehensive expense of associates	-	-	-	-	-	-	-	-	-	(7)	-	(7)	-	(7)	
Share of other comprehensive expense of a joint venture	-	-	-	-	-	-	-	-	-	(6)	-	(6)	-	(6)	
Exchange differences arising on translation of foreign operation	-	-	-	-	-	-	-	-	-	8,211	-	8,211	112	8,323	
Total other comprehensive income for the period	-	-	-	-	-	-	-	1,120	-	8,198	-	9,318	112	9,430	
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	1,120	-	8,198	2,836	12,154	(288)	11,866	
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	7,719	-	-	-	-	7,719	(26,353)	(18,634)	
Cancellation of repurchased ordinary shares	(1,194)	(4,229)	-	3,293	-	-	-	-	-	-	-	(2,130)	-	(2,130)	
At 31 March 2016 (unaudited)	223,990	881,489	2,935	-	26,217	154,381	6,025	34,023	51,142	6,768	106,801	1,493,771	17,782	1,511,553	

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.

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) *(Continued)*

Notes: *(Continued)*

- (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) During the three months period ended 31 March 2016, 5,968,000 ordinary shares were repurchased and cancelled with the highest price of HK\$0.36 and the lowest price of HK\$0.34. In addition, 9,344,000 ordinary shares were cancelled during the Review Period (repurchased prior to 31 December 2015) with the highest price of HK\$0.355 and the lowest price of HK\$0.335.
- (d) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior years.
- (e) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (f) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior years.

9. ACQUISITION OF ADDITIONAL INTERESTS OF A SUBSIDIARY

On 22 January 2016, Beijing Enterprises Ever Source Technology Development Co., Ltd ("Beijing Ever Source", as Purchaser, an indirect wholly owned subsidiary of the Company) and Beijing Sibolian General Mechanical New Technology Company ("Sibolian", as Seller), entered into the Share Transfer Agreement, pursuant to which, Beijing Ever Source agreed to purchase and Sibolian agreed to sell, the 5.387% equity interest in Ever Source Science and Technology Development Group Co., Ltd ("HYY") at the consideration of RMB15,750,000 (equivalent to approximately HK\$18,634,000).

On 2 February 2016, the acquisition has been completed. Thereafter, HYY becomes an indirect wholly-owned subsidiary of the Group.

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

As at 31 March 2016, 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					
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	41,636,000 (L)		1.45%	24,500,000 (L)		
	Interest of spouse	10,074,000 (L)		0.35%	-	76,210,000 (L)	2.65%
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)		17.67%	22,584,000 (L)	531,605,000 (L)	18.48%
	Beneficial owner	508,300,000 (S)		17.67%	-	508,300,000 (S)	17.67%
	Interest of spouse	702,000 (L)		0.02%	-		
Mr. Jia Wenzeng (Note 3)	Beneficial owner	-		-	3,000,000 (L)	3,000,000 (L)	0.10%
Mr. Wu Desheng (Note 4)	Beneficial owner	-		-	1,500,000 (L)	1,500,000 (L)	0.05%

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

Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 41,636,000 shares and 24,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 10,074,000 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
2. Mr. Xu Shengheng (“Mr. Xu”) is interested in 508,319,000 Shares and 22,584,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.
3. Mr. Jia Wenzeng is interested in 3,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
4. Mr. Wu Desheng is interested in 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Positions under Equity Derivatives

The Share Option Plan

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (the “Share Option Plan”) for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 31 March 2016, 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 31 March 2016
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	11 August 2014	11 August 2015 to 10 August 2016	0.455	7,500,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	5,492,000
		11 August 2015 to 10 August 2016	0.455	5,492,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000
Mr. Wu Desheng	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000

Save as disclosed above, as at 31 March 2016, 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 31 March 2016, 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	850,000,000 (L)		29.55%	-	850,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	850,000,000 (L)		29.55%	-	850,000,000 (L)	29.55%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)		0.02%	-		
	Interest of spouse	508,319,000 (L)		17.67%	22,584,000 (L)	531,605,000 (L)	18.48%
	Interest of spouse	508,300,000 (S)		17.67%	-	508,300,000 (S)	17.67%

(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 850,000,000 Shares.
2. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 22,584,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 22,584,000 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 31 March 2016, 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 31 March 2016, options to subscribe for an aggregate of 386,384,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 31 March 2016 were as follows:

Date of grant of share options	As at 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 March 2016	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	51,380,000	-	-	-	51,380,000	-	9 September 2010 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.426
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.426
11 August 2014	99,004,000	-	-	-	99,004,000	-	11 August 2014 to 10 August 2016	0.455
11 August 2014	141,000,000	-	-	-	141,000,000	11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	0.455
	386,384,000	-	-	-	386,384,000			

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

The Company has 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 and internal control system of the Group and to provide advice and comments to the directors of the Company.

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai. 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Review Period, 5,968,000 shares of US\$0.01 each were repurchased by the Company at prices ranging from HK\$0.34 to HK\$0.36 per share through the Stock Exchange.

As at the date of this report, 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.

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

Hong Kong, 10 May 2016