



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



**TECHNOLOGY
AND RESOURCES LINKS**

Interim Report **2016**

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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 six months ended 30 June 2016 (the “Review Period”) amounted to approximately HK\$189,343,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,178,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and for the six months ended 30 June 2015.

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow ground source energy	46,706	83,798	180,699	170,027
– Properties investment and development	4,969	5,931	8,644	9,359
Total revenue	51,675	89,729	189,343	179,386
(Loss) profit for the period	(258)	891	2,178	3,108
Profit attributable to owners of the Company	1,735	746	4,571	3,175

During the Review Period, the Group's revenue amounted to approximately HK\$180,699,000 which was contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$170,027,000 for the corresponding period last year. The revenue increased by approximately HK\$9,957,000 as compared with that of corresponding period last year. The Group's gross profit margin decreased from 38.1% in last corresponding period to 35.7% 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 period. 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 decreased due to these low gross profit contracts.

Other income increased from approximately HK\$17,421,000 in the corresponding period last year to approximately HK\$40,509,000 for the six months ended 30 June 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\$13,509,000 and HK\$12,830,000 for the six months ended 30 June 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\$6,596,000, or 12.8% as compared with that of six months ended 30 June 2015. Administrative expenses increased was mainly attributable to the increase in staff costs.

Finance costs amounted to HK\$18,699,000 for the six months ended 30 June 2016 as compared with approximately HK\$21,685,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Profit for the Review Period (for the six months ended 30 June 2016) was approximately HK\$2,178,000, whereas it was HK\$3,108,000 for the corresponding period in last year.

Order Book

As at 30 June 2016, the Group has contracts on hand of approximately HK\$276,971,000.

Investment Properties

The Group's investment properties as at 30 June 2016 were valued at HK\$385,128,000. As a result, a decrease in fair value of investment properties of approximately HK\$5,845,000 (2015: increased of HK\$26,018,000) was recognised directly in profit or loss for the Review Period.

Liquidity, Financial Resources and Capital Structure

Net current assets of the Group as at 30 June 2016 was approximately HK\$59,901,000 (31 December 2015: approximately HK\$153,640,000). As at 30 June 2016, the Group had cash and bank balances of approximately HK\$125,193,000 (31 December 2015: approximately HK\$144,818,000). Cash and bank balance shown on the statement of financial position include funds available for general corporate purposes.

During the six months ended 30 June 2016, 5,968,000 ordinary shares were repurchased and cancelled with the highest price of HK\$0.36 and the lowest price of HK\$0.34. In addition, 9,344,000 ordinary shares were cancelled during the Review Period (repurchased prior to 31 December 2015) with the highest price of HK\$0.36 and the lowest price of HK\$0.33.

Non-controlling interests amounted to approximately HK\$20,894,000 which mainly represents the interests attributable to non-controlling shareholders of the Group's subsidiaries in the PRC.

Charges on asset

As at 30 June 2016, no Group's asset has been charged.

Gearing Ratio

The gearing ratio of the Group was maintained at 31.8% as at 30 June 2016 (31 December 2015: 32.3%).

Foreign Exchange Exposure

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

Contingent Liabilities

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

Employees

As at 30 June 2016, the Group has approximately 670 employees in total (31 December 2015: approximately 670). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

BUSINESS REVIEW AND OUTLOOK

The Group continues to be dedicated to scientific research, technology development and commercialization of its core technology in utilizing the shallow ground energy as a substitute energy to provide heating for buildings. It integrates its original technology with heat pump to enable the low-temperature shallow ground energy to outstand as a substitute energy for building heating. With the rapid commercialization of its core technology, the industrial escalation of conventional heating sector enters into a new era in an all-round way. A burgeoning industry featuring integrated heating and cooling provision for building with shallow ground energy gradually takes the place. The Group has grown into **a service provider with the most optimal system solutions in achieving smart heating and cooling for buildings being combustion- and pollution-free by using shallow ground energy.**

In general, energies used for building heating has undergone three major stages of evolvement. The first stage has been mainly characterized by combustion of fossil energies or primary energies, complemented by electric power as a secondary energy. The second stage has seen the dominant role played by electric power assisted by some renewable energies such as solar or wind. The third one is led by the utilization of the renewable shallow-ground energy as the substitute heating energy for buildings, with the support of electric power. At the third stage, more than 60% energy consumed for building heating is taken up by renewable shallow ground energy. This has greatly uplifted efficiency of electric power consumption up to 300% (meaning by paying \$1 for electricity which can achieve a heating effect that equals to or exceeds what \$3 of electricity can produce by itself). As an indirect result, the efficiency of primary energies in power generation is also enhanced to 111%. Compared to combustion-based heating, the energy efficiency increased by more than 15%. The National Development and Reform Commission of the Chinese government, in its official directive (No. 2665[2015]), made clear instructions on promoting smart heating for buildings. The instruction reads: **to promote the utilization of single-well collection technology for shallow ground energy to realize smart heating for buildings with no combustion, forcefully push forward the development of the emerging industry of integrated heating and cooling for buildings by**

utilizing shallow ground energy, effectively uplift the shares taken by renewable energies in the energy mix consumed by building heating, so as to radically eliminate pollutions caused by combustion-based heating and enhance people's life quality in both urban and rural areas. This proves from certain perspective that the development goal pursued by the Group is accurate. Determination of the Chinese government in eradicating smog, especially the setout of electricity-for-coal project compulsively implemented in the Beijing, Tianjin and Hebei for the purpose of reducing combustion has brought about the real opportunity for the Group to achieve leapfrog development.

During the Review Period, the Group, in light of the economic situation, set up a market development strategy that prioritizes two ends and sustains the central. (By two ends, it refers to market promotion in two products, namely the Ground Energy Heating Device to replace conventional way of individual heating and the 50-900MW Distributed Ground Energy Heating/Cooling Station to replace conventional district-based heating in cities or towns. The central means the Ground Energy Heat Pump Environmental System which is a perfect substitute for traditional central heating system.) Pilot programs promoting Ground Energy Heating Devices in rural of China has attained very positive results. Following the construction of a 900MW Distributed Ground Energy Heating/Cooling Station in Xiaoyaowan Business Zone, the Group has entered into another business contract with the Puwan New Zone in Dalian on building a 900MW Distributed Ground Energy Heating/Cooling Station in the Golden Bohai Coast Development Zone. Application for Regional Franchise or Exclusive Rights by the Group is in the process of being reviewed by government. The principal business of the Group is making headways in a constant manner. In the meantime, to implement the electricity-for-coal project, the Beijing government has recently launched its tendering process. The Group that boasts long record of good expertise and substantial experience in the sector will seize the opportunity to forcefully strive for bigger market shares and higher revenue and profits 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 and six months ended 30 June 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 six months ended 30 June 2016

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	51,675	89,729	189,343	179,386
Cost of sales		(16,052)	(63,054)	(121,803)	(111,123)
Gross profit		35,623	26,675	67,540	68,263
Other income		21,054	3,386	40,509	17,421
Fair value changes on investment properties		(5,845)	26,018	(5,845)	26,018
Selling and distribution expenses		(5,442)	(6,026)	(13,509)	(12,830)
Administrative expenses		(30,395)	(24,868)	(58,259)	(51,663)
Profit from operations		14,995	25,185	30,436	47,209
Share of results of associates		20	(217)	(649)	(1,113)
Share of result of a joint venture		(392)	–	(976)	–
Share-based payments		–	(2,905)	–	(7,181)
Finance costs		(9,364)	(10,977)	(18,699)	(21,685)
Profit before tax		5,259	11,086	10,112	17,230
Income tax expense	4	(5,517)	(10,195)	(7,934)	(14,122)
(Loss) profit for the period	5	(258)	891	2,178	3,108

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

For the six months ended 30 June 2016

Notes	Three months ended 30 June		Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Other comprehensive (expense) income:				
Exchange differences arising on translation of foreign operations	(24,449)	(2,310)	(16,126)	(1,556)
Fair value gains on available-for-sale investments	3	1	1,123	366
Share of other comprehensive (expenses) income of an associate	(3)	3	(10)	(4)
Share of other comprehensive expenses of a joint venture	(10)	–	(16)	–
Total other comprehensive expense for the period	(24,459)	(2,306)	(15,029)	(1,194)
Total comprehensive (expense) income for the period	(24,717)	(1,415)	(12,851)	1,914
(Loss) Profit attributable to:				
Owners of the Company	1,735	746	4,571	3,175
Non-controlling interests	(1,993)	145	(2,393)	(67)
	(258)	891	2,178	3,108
Total comprehensive (expense) income attributable to:				
Owners of the Company	(27,829)	(1,434)	(15,675)	2,061
Non-controlling interests	3,112	19	2,824	(147)
	(24,717)	(1,415)	(12,851)	1,914
Earnings per share	7			
Basic (HK cents)	0.060	0.026	0.160	0.110
Diluted (HK cents)	0.060	0.026	0.160	0.109

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Non-current Assets			
Property, plant and equipment	8	338,685	335,183
Investment properties	8	385,128	373,770
Deposit paid for acquisition of land use rights		126,292	86,621
Goodwill		465,760	465,760
Interests in associates		35,293	29,737
Interests in a joint venture		5,982	7,366
Available-for-sale investments		104,956	106,203
Prepayments		10,552	12,537
Deferred tax assets		26,890	26,890
		1,499,538	1,444,067
Current Assets			
Inventories		89,420	39,795
Properties held for sales under development		116,297	118,688
Deposit paid for acquisition of a subsidiary	9	75,975	77,685
Trade and retention receivables	10	234,842	226,336
Prepayments, deposits and other receivables		119,580	114,953
Amounts due from customers for contract work		307,152	297,086
Amount due from non-controlling interests		9,277	1,850
Amount due from associates		29,551	12,612
Amounts due from related companies		2,651	1,224
Held-for-trading financial assets		58	59
Available-for-sale investments		–	102,625
Cash held at non-bank financial institutions		7,452	8,619
Bank balances and cash		117,741	136,199
		1,109,996	1,137,731

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2016

	Notes	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Current Liabilities			
Trade payables	11	179,469	182,368
Accrued liabilities, deposits received and other payables		206,865	173,969
Amounts due to customers for contract work		10,075	11,398
Amounts due to associates		41,035	–
Amount due to a joint venture		883	–
Borrowings		466,822	477,326
Tax payable		144,946	139,030
		1,050,095	984,091
Net Current Assets		59,901	153,640
Total Assets less Current Liabilities		1,559,439	1,597,707
Non-Current Liabilities			
Receipt in advance		4,101	5,615
Deferred income		7,913	8,091
Deferred tax liabilities		60,589	63,550
		72,603	77,256
Net Assets		1,486,836	1,520,451
Capital and Reserves			
Share capital	12	223,990	225,184
Reserves		1,241,952	1,250,844
Equity attributable to owners of the Company		1,465,942	1,476,028
Non-controlling interests		20,894	44,423
Total Equity		1,486,836	1,520,451

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	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
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	-	-	-	-	-	-	-	-	-	-	3,175	3,175	(67)	3,108
Other comprehensive income (expense) for the period:														
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	(1,476)	-	(1,476)	(80)	(1,556)
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	366	-	-	-	366	-	366
Share of other comprehensive expenses of an associate	-	-	-	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Total other comprehensive income (expense) for the period	-	-	-	-	-	-	-	366	-	(1,480)	-	(1,114)	(80)	(1,194)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	366	-	(1,480)	3,175	2,061	(147)	1,914
Repurchase and cancellation of ordinary shares	(2,220)	(8,150)	-	3,083	-	-	-	-	-	-	-	(7,287)	-	(7,287)
Issue of shares upon exercise of share options	4,279	26,239	-	-	-	-	-	-	(5,955)	-	-	24,563	-	24,563
Lapse of share options	-	-	-	-	-	-	-	-	(19,392)	-	19,392	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	7,181	-	-	7,181	-	7,181
At 30 June 2015 (unaudited)	228,229	896,008	2,935	-	34,355	154,381	(1,694)	33,131	50,638	42,487	154,647	1,595,117	40,785	1,635,902

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2016

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

Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.
- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior year.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year.
- (f) During the six months ended 30 June 2016, 5,968,000 ordinary shares were repurchased and cancelled with the highest price of HK\$0.36 and the lowest price of HK\$0.34. In addition, 9,344,000 ordinary shares were cancelled during the Review Period (repurchased prior to 31 December 2015) with the highest price of HK\$0.36 and the lowest price of HK\$0.33.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow (outflow) from operating activities	13,854	(68,237)
Net cash outflow from investing activities	(11,161)	(73,791)
Net cash (outflow) inflow from financing activities	(19,923)	6,511
Decrease in cash and cash equivalents	(17,230)	(135,517)
Effect of foreign exchange rates changes	(2,395)	(2,611)
Cash and cash equivalents at the beginning of the period	144,818	332,286
Cash and cash equivalents at the end of the period	125,193	194,158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Group for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34"), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015 except as described below.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning 1 January 2016.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new HKFRSs in the current period has had no material effect on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

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

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

(a) Segment revenue and results

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

	Shallow ground source energy		Securities investment and trading		Properties investment and development		Total	
	Six months ended 30 June 2016	2015	Six months ended 30 June 2016	2015	Six months ended 30 June 2016	2015	Six months ended 30 June 2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue								
External customers	180,699	170,027	-	-	8,644	9,359	189,343	179,386
Segment results	41,653	27,501	31	(18)	2,210	33,767	43,894	61,250
Share of results of associates							(649)	(1,113)
Share of results of a joint venture							(976)	-
Unallocated other income							7,415	4,395
Unallocated expenses							(20,873)	(25,617)
Unallocated finance costs							(18,699)	(21,685)
Profit before tax							10,112	17,230

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results *(Continued)*

Segment result represents profit earned by or loss from each segment without allocation of share of results of associates and a joint venture, interest income, certain other income, central administration costs, share-based payments and interest on borrowings. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current period (2015: Nil).

(b) Segment assets and liabilities

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

Segment assets

	30 June	31 December
	2016	2015
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	(Unaudited)	(Audited)
Shallow ground source energy	1,461,640	1,377,736
Securities investment and trading	112,466	288,908
Properties investments and development	808,045	690,657
	<hr/>	<hr/>
Total segment assets	2,382,151	2,357,301
Unallocated corporate assets	227,383	224,497
	<hr/>	<hr/>
Consolidated total assets	2,609,534	2,581,798

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities *(Continued)*

Segment liabilities

	30 June 2016 <i>HK\$'000</i> (Unaudited)	31 December 2015 <i>HK\$'000</i> (Audited)
Shallow ground source energy	353,886	331,427
Securities investment and trading	939	3,429
Properties investments and development	53,599	46,585
Total segment liabilities	408,424	381,441
Unallocated corporate liabilities	714,274	679,906
Consolidated total liabilities	1,122,698	1,061,347

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

4. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax	7,711	4,451	10,128	8,378
Deferred tax	(2,194)	5,744	(2,194)	5,744
	5,517	10,195	7,934	14,122

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 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 six months ended 30 June 2016 and 2015.

5. (LOSS) PROFIT FOR THE PERIOD

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

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	16,052	63,054	121,803	111,123
Staff costs				
(including directors' emoluments)	18,209	15,871	40,576	34,916
Depreciation and amortisation	3,367	3,581	5,979	10,107
Minimum lease payments under operating leases in respect of land and buildings	2,338	2,237	4,457	4,184

6. DIVIDENDS

No interim dividend was paid, declared or proposed during the six months ended 30 June 2016, nor has any dividend been proposed since the end of the interim reporting period (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		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Earnings for the period attributable to owners of the Company and for the purpose of basic earnings and diluted earnings per share	1,735	746	4,571	3,175
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,876,375	2,900,129	2,876,624	2,892,927
Effect of dilutive potential ordinary shares:				
Share options (note)	–	15,002	–	18,213
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,876,375	2,915,131	2,876,624	2,911,140

Note: The calculation of diluted earnings per share for the six months ended 30 June 2016 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the six months ended 30 June 2016.

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the six months ended 30 June 2016, the Group incurred approximately HK\$13,473,000 (2015: HK\$2,645,000) on acquisition of property, plant and equipment.

During the six months ended 30 June 2016, the land use right certificates in respect of the land auction deposit of approximately RMB2,310,000 (equivalent to approximately HK\$2,696,000) had been obtained. These newly acquired land had been reclassified to investment properties.

The Group's investment properties as at 30 June 2016 were fair valued by Peak Vision Appraisals Limited, an independent professionally qualified valuer not connected to the Group. The resulting decrease in fair value of investment properties of approximately HK\$5,845,000 (2015: increased of HK\$26,018,000) has been recognised directly in the profit or loss for the six months ended 30 June 2016.

9. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

On 31 December 2014, an agreement was entered into between the Company's indirect wholly-owned subsidiary, Hangzhou Ever Source Energy and Technology Ltd. (杭州恒有源能源科技有限公司) ("HYY Hangzhou"), a vendor, Hong Kong Goodway International Holdings Limited (香港嘉德威國際集團有限公司) ("Goodway") and a guarantor, Mr. Chen Zaixian who is a shareholder of Goodway, pursuant to which the Group has conditionally agreed to purchase and the vendor has conditionally agreed to sell 100% equity interest of 嘉德威(杭州)生物科技有限公司 Goodway (Hangzhou) Biotechnology Ltd. ("Hangzhou Goodway"), to indirectly acquire the land and buildings held by Hangzhou Goodway, for the consideration of RMB93,000,000 (equivalent to approximately HK\$116,250,000), which shall be satisfied by cash. Up to 30 June 2016, the Group had paid the deposit of RMB65,100,000 (equivalent to approximately HK\$75,975,000). The transaction has not yet been completed since the condition stated in agreement had not yet been fulfilled.

10. TRADE AND RETENTION RECEIVABLES

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables	235,705	215,331
Less: allowance for doubtful debts	(58,651)	(58,651)
	177,054	156,680
Retention receivables	57,788	69,656
	234,842	226,336

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within 90 days	47,270	48,485
91 to 180 days	7,290	52,347
181 to 365 days	67,277	11,140
Over 365 days	55,217	44,708
	177,054	156,680

11. TRADE PAYABLES

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

	30 June 2016 HK\$ '000 (Unaudited)	31 December 2015 HK\$ '000 (Audited)
Within 90 days	49,973	38,658
91 to 180 days	1,763	17,517
181 to 365 days	25,892	36,412
Over 365 days	101,841	89,781
	179,469	182,368

12. SHARE CAPITAL

	Number of shares		Share capital		Share capital	
	US\$0.01 each		Share capital	Share capital	Share capital	Share capital
	30 June	31 December	30 June	31 December	30 June	31 December
	2016	2015	2016	2015	2016	2015
	'000	'000	US\$ '000	US\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Ordinary shares						
Issued and fully paid:						
At the beginning of the period/year	2,891,687	2,904,327	28,916	29,043	225,184	226,170
Issue of shares under the Company's share option scheme	-	55,608	-	556	-	4,337
Shares repurchased and cancelled during the period/year	(5,968)	(59,688)	(60)	(597)	(469)	(4,656)
Shares repurchased in previous year and cancelled during the period/year	(9,344)	(8,560)	(93)	(86)	(725)	(667)
At the end of the period/year	2,876,375	2,891,687	28,763	28,916	223,990	225,184

13. COMMITMENTS

i) Operating lease

The Group as lessor

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within one year	9,420	12,040
In the second to fifth years, inclusive	49,000	55,870
Over five years	167,501	190,043
	225,921	257,953

The Group as lessee

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Within one year	3,752	3,890
In the second to fifth years, inclusive	3,529	5,059
Over five years	1,097	1,126
	8,378	10,075

13. COMMITMENTS *(Continued)*

i) **Operating lease** *(Continued)*

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

ii) **Others**

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– Investment properties under construction	36,334	24,185
– Acquisition of available-for-sale investment	233	239
– Injection of capital into an associate	17,156	23,389
– Acquisition of land use rights	6,559	–
	60,282	47,813

14. SHARE-BASED PAYMENT TRANSACTIONS

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

	Number of share options
Outstanding at 1 January 2016	386,384,000
Lapsed during the period	(13,720,000)
Outstanding at 30 June 2016	372,664,000

15. 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.

16. RELATED PARTY TRANSACTIONS

(a) **During the periods ended 30 June 2016 and 2015, the Group entered into the following transactions:**

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease payments paid to a non-controlling shareholder	–	1,187	–	2,374
Rental income from an associate	44	64	87	127
Purchase from an associate	6,402	5,751	42,213	18,120
Sales to an associate	2	–	19,069	–
Sales to related companies	–	709	241	9,309
	6,448	7,711	61,610	29,930

16. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Remuneration of key management personnel

The remuneration of directors and other members of key management during the periods ended 30 June 2016 and 2015 was as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short term benefits	2,687	2,175	5,373	4,491
Retirement benefits scheme contributions	14	13	27	27
	2,701	2,188	5,400	4,518

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2016	31 December 2015		
	HK\$ '000	HK\$ '000		
Financial assets	(unaudited)	(audited)		
Fund classified as available-for-sale investments	60,539	60,309	Level 1	Quoted bid prices in an active market
Held-for-trading non-derivative financial assets classified as held-for-trading financial assets	58	59	Level 1	Quoted bid prices in an active market

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

As at 30 June 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)	76,210,000 (L)	2.65%
	Interest of spouse	10,074,000 (L)		0.35%	-		
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%	-		
	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 30 June 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 30 June 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 30 June 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 30 June 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 30 June 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 30 June 2016, options to subscribe for an aggregate of 372,664,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 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 30 June 2016	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	51,380,000	-	-	992,000	50,388,000	-	9 September 2010 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.426
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.426
11 August 2014	99,004,000	-	-	6,364,000	92,640,000	-	11 August 2014 to 10 August 2016	0.455
11 August 2014	141,000,000	-	-	6,364,000	134,636,000	11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	0.455
	386,384,000	-	-	13,720,000	372,664,000			

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.

CORPORATE GOVERNANCE CODE

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

Under code provision A.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.

During the Review Period, Mr. Liu Dajun is Joint Chairman of the Board and Chief Operating Officer and Mr. Xu Shengheng is 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.

However, for the purpose of better compliance with the Code, on 6 July 2016, Mr. Xu Shengheng has resigned as chief executive officer of the Company and, on 13 July 2016, Mr. Wang Manquan was appointed as chief executive officer of the Company. Since then, the Company has complied with the code provision A.2.1 of the Code to have the roles and responsibility of chairman and chief executive officer separated.

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 and the extraordinary general meeting held on 30 May 2016 due to their engagement in other business.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process 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. Zhang Honghai and Mr. Wu Desheng. 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
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 12 August 2016