



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

Third Quarterly Report 2016

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

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This report, for which the directors of China Ground Source Energy Industry Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 nine months ended 30 September 2016 (the "Review Period") amounted to approximately HK\$299,749,000.

Net loss after tax of the Group for the Review Period amounted to approximately HK\$8,134,000.

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 the nine months ended 30 September 2015.

	Three months ended		Nine months ended	
	30 September	30 September	30 September	30 September
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow ground source energy	106,150	58,105	286,849	228,132
– Properties investment	4,256	4,296	12,900	13,655
Total revenue	110,406	62,401	299,749	241,787
(Loss) Profit for the period	(10,312)	(160)	(8,134)	2,948
(Loss) Profit attributable to owners of the Company	(10,435)	(1,776)	(5,864)	1,399

During the Review Period, the Group's revenue amounted to approximately HK\$286,849,000 which was contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$228,132,000 for the corresponding period last year. The revenue increased by approximately HK\$58,717,000 as compared with that of corresponding period last year. The Group's gross profit margin decreased from 42.8% in last corresponding period to 34.6% 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\$26,669,000 in the corresponding period last year to approximately HK\$42,348,000 for the nine months ended 30 September 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\$21,259,000 and HK\$19,599,000 for the nine months ended 30 September 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\$13,805,000 or 18.6% as compared with that of nine months ended 30 September 2015. Administrative expenses increased was mainly attributable to the increase in staff costs and research and development costs.

Finance costs amounted to HK\$27,766,000 for the nine months ended 30 September 2016 as compared with approximately HK\$32,641,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Loss for the Review Period (for the nine months ended 30 September 2016) was approximately HK\$8,134,000, whereas there was a profit of HK\$2,948,000 for the corresponding period in last year.

BUSINESS REVIEW AND OUTLOOK

In the Review Period, the Group restructured its five-year strategic plan and realigned its business segmentation and organization structure in light of policy, market and its own development. Based on the well-developed business modalities, the Group keeps prioritizing the application of its core technology of “Single-well Ground Source Energy Collection Technology” and scaling up the development of the emerging industry characterized by integrated heating and cooling with ground source energy.

In its latest five-year plan, the Group further clarifies its area focuses for promoting smart heating, namely areas along and North to the Yangzi River, being the mandated heating areas in China, which are also the hot-summer and cold-winter areas, cold areas and extreme cold areas in the China climate zoning map. The goal is to establish the brand name “HYY” (or Hengyouyuan) as the very first heating system brand using ground source energy to provide heating for buildings in a combustion-free manner, which includes the HYY Distributed Ground Energy Heating and Cooling Stations (for heating of the cities and townships), the HYY Ground Energy Heat Pump Environmental System (for central heating), and the HYY Ground Energy Heating Devices (for individual heating); and to promote “Hongyuan” as the first brand name for heating products, which includes the Hongyuan Heating Device (special heat pump with triple supply of heating, cooling and domestic hot water (optional) applicable in cold and extreme cold areas), Hongyuan Heat Pump (general heat pump applicable in hot-summer and cold-winter areas). With all the systems and products in place, the Group is committed to expanding application of ground source energy and making it the first substitute clean energy in heating industry, and therefore contribute to the development of integrated heating and cooling industry. The Group is further streamlining and developing the smart heating businesses in its manufacturing sector, heating engineering sector, maintenance and management service sector and comprehensive development of key smart heating areas etc., in order to build the company into a highly competitive service provider with the most optimal solutions for smart heating with shallow ground source energy.

In the Review Period, the Ever Source Science and Technology Development Group Co., Ltd (“HYY Company”) has launched a project called “Electricity for coal – Heating Villages with Ground Source Energy”, as part of the government-supported endeavor to promote electricity-for-coal in Beijing, Tianjin and Hebei areas. The project utilizes the Ground Energy Heating Devices System to provide heating, cooling and domestic hot water (optional) to individual household in rural areas. By setting up a heating infrastructure free of combustion and emission in rural areas, it greatly helps to address the persistent problem of air pollution. In 2016, there were 24 companies participated in the tendering process for ground energy heating projects in certain areas of Beijing. Among these, 12 companies won the bidders. As one of the 12 companies, the HYY Company is the only one that has completed an entire-village construction project. The Xizha Village, as the first “Electricity-for-coal – Heating Villages with Ground Source Energy” project implemented by the company was launched on August 14 and completed on September 8, 2016. There are 226 rural households in Xizha village. The government committed RMB13.50 million to build individual heating systems in the village. The application of the technology of the HYY Ground Energy Heating Device has not only achieved ensured heating/cooling and optional domestic hot water in the area, but also incurred no additional investment cost. By producing heating in winters, cooling in summers and optional domestic hot water, the project has radically transformed the living condition of the residence and improve the life quality.

Following the HYY Distributed Ground Energy Heating and Cooling Stations (for heating of the cities and townships) and the HYY Ground Energy Heat Pump Environmental System (for central heating), the HYY Ground Energy Heating Devices (for individual heating) that largely applied in households has clearly manifested the adaptability and applicability of the ground source energy as substitute energy for providing heating for buildings.

The “Electricity-for-coal – Heating Villages with Ground Source Energy” project carried out by the HYY Company features mainly the application of its Ground Energy Heating Device System. It showcases the energy revolution in rural China shifting from traditional coal-based heating to renewable ground source energy heating as primary heating energy and complemented by electric power. More than 60% of the energy consumed in such heating is renewable ground source energy. The HYY Ground Energy Heating Devices provide the rural residence with assured heating in winters, available cooling in summers and optional domestic hot water. The peak cost for heating in winter with ground source energy is merely equivalent to coal heating at a unit price of RMB800 per ton of coal. Being equipped with individual meters, heating consumption can be measured and therefore charged by rooms. This further encourages energy-saving behaviors, and thus the energy cost can actually be lowered 30% of coal-fired heating.

As eco-environment improvement and energy revolution is prioritized in the 13th Five-year Plan of China, being coal-free is therefore a target for building heating. Eliminating combustion is key in treating haze problem in China. This 13th five-year period will also be an essential stage for the industrial escalation in the heating sector, and a strategic period filled with opportunities for the Group's development.

The Group will keep on reinforcing its R&D to realize industrial development of the industry, using shallow ground source energy as prime substitute energy in heating. It will continue to position itself as a service provider with the most optimal solutions to generating heating in a smart way.

Note:

Major Characteristics and Indicators of Smart Heating:

1. *Major characteristics:* *One system, dual functions (integrated heating and cooling);*

2. *Major indicators:*
 - a. *equivalent cost to initial and operational cost of traditional heating;*
 - b. *more than 60% of energy consumed by heating is renewable;*
 - c. *heating generation is free from combustion and emission in the service area.*

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 nine months ended 30 September 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 nine months ended 30 September 2016

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	110,406	62,401	299,749	241,787
Cost of sales		(74,102)	(27,141)	(195,905)	(138,264)
Gross profit		36,304	35,260	103,844	103,523
Other income		1,839	9,248	42,348	26,669
Fair value changes on investment properties		–	–	(5,845)	26,018
Selling and distribution expenses		(7,750)	(6,769)	(21,259)	(19,599)
Administrative expenses		(29,631)	(22,422)	(87,890)	(74,085)
Profit from operations		762	15,317	31,198	62,526
Share of results of associates		548	(55)	(101)	(1,168)
Share of result of a joint venture		996	–	20	–
Share-based payments		–	(566)	–	(7,747)
Finance costs		(9,067)	(10,956)	(27,766)	(32,641)
(Loss) profit before tax		(6,761)	3,740	3,351	20,970
Income tax expense	4	(3,551)	(3,900)	(11,485)	(18,022)
(Loss) Profit for the period	5	(10,312)	(160)	(8,134)	2,948

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

For the nine months ended 30 September 2016

Notes	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Other comprehensive (expense) income:				
Fair value (loss) gains on available-for-sale investments	-	(8)	1,123	358
Share of other comprehensive income (expense) of associates	11	-	1	(4)
Share of other comprehensive income of a joint venture	16	-	-	-
Exchange differences arising on translation of foreign operations	(16,080)	(27,082)	(32,206)	(28,638)
Total other comprehensive expenses for the period	(16,053)	(27,090)	(31,082)	(28,284)
Total comprehensive expenses for the period	(26,365)	(27,250)	(39,216)	(25,336)
(Loss) Profit attributable to:				
Owners of the Company	(10,435)	(1,776)	(5,864)	1,399
Non-controlling interests	123	1,616	(2,270)	1,549
	(10,312)	(160)	(8,134)	2,948
Total comprehensive (expenses) income attributable to:				
Owners of the Company	(14,605)	(27,583)	(30,280)	(25,522)
Non-controlling interests	(11,760)	333	(8,936)	186
	(26,365)	(27,250)	(39,216)	(25,336)
(Loss) Earnings per share	7			
Basic (HK cents)	(0.363)	(0.060)	(0.204)	0.050
Diluted (HK cents)	(0.363)	(0.060)	(0.204)	0.050

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

1. GENERAL

China Ground Source Energy Industry Group Limited (the “Company”) was incorporated in Cayman Islands on 14 December 1999 as an exempted company with limited liability under the Company Law (1998 Revision) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 30 November 2001.

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

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

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) which is different from the functional currency of the Company, Renminbi (“RMB”). As the Company is listed in Hong Kong, the directors of the Company consider that it is appropriate to present the consolidated financial statements in HK\$. The majority of the Company’s subsidiaries are operating in the PRC with RMB as their functional currency.

2. BASIS OF PREPARATION

The condensed consolidated financial statements 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 (“HKFRS”), 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 annual audited financial statements for the year ended 31 December 2015.

2. BASIS OF PREPARATION *(Continued)*

The Group has adopted new and amended standards and interpretations of HKFRS 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 third 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 auditors, but have been reviewed by the Company's audit committee.

3. 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		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Shallow ground source energy utilisation system	106,150	58,105	286,849	228,132
Rental income	4,256	4,296	12,900	13,655
	110,406	62,401	299,749	241,787

4. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax	3,551	3,900	13,679	12,278
Deferred tax	–	–	(2,194)	5,744
	3,551	3,900	11,485	18,022

5. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period is arrived at after charging:

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of sales	74,102	27,141	195,905	138,264
Staff costs (including directors' emolument)	18,693	16,182	59,269	51,098
Depreciation and amortisation	3,040	1,984	9,019	12,091
Minimum lease payments under operating leases in respect of land and buildings	3,932	2,486	8,389	6,670

6. DIVIDENDS

No interim dividend was paid, declared or proposed during the Review Period. The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (2015: nil).

7. (LOSS) EARNINGS PER SHARE

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

	Three months ended 30 September		Nine months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) Earnings				
(Loss) Earnings for the purpose of basic earnings and diluted earnings per share	(10,435)	(1,776)	(5,864)	1,399
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	2,876,375	2,931,479	2,876,541	2,905,872
Effect of dilutive potential ordinary shares:				
Share options (note)	–	–	–	7,239
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,876,375	2,931,479	2,876,541	2,913,111

Note: The calculation of diluted earnings per share for the nine months ended 30 September 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 nine months ended 30 September 2016.

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

For the nine months ended 30 September 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	Exchange translation	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 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 for the period	-	-	-	-	-	-	-	-	-	-	1,399	1,399	1,549	2,948
Other comprehensive income (expense) for the period:														
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	358	-	-	-	358	-	358
Share of other comprehensive expenses of an associate	-	-	-	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	(27,275)	-	(27,275)	(1,363)	(28,638)
Total other comprehensive income (expense) for the period	-	-	-	-	-	-	-	358	-	(27,279)	-	(26,921)	(1,363)	(28,284)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	358	-	(27,279)	1,399	(25,522)	186	(25,336)
Issue of shares upon exercise of share options	4,337	26,588	-	-	-	-	-	-	(6,018)	-	-	24,907	-	24,907
Repurchase and cancellation of ordinary shares	(3,478)	(12,232)	-	3,083	-	-	-	-	-	-	-	(12,627)	-	(12,627)
Repurchase of ordinary shares	-	-	-	(6,352)	-	-	-	-	-	-	-	(6,352)	-	(6,352)
Lapse of share options	-	-	-	-	-	-	-	-	(19,392)	-	19,392	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	7,747	-	-	7,747	-	7,747
At 30 September 2015 (Unaudited)	227,029	892,275	2,935	(6,352)	34,355	154,381	(1,694)	33,123	51,141	16,688	152,871	1,556,752	41,118	1,597,870

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

For the nine months ended 30 September 2016

	Attributable to owners of the Company													
	Share capital HK\$'000	Share premium HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Treasury shares HK\$'000	Assets revaluation reserve HK\$'000	Contributed surplus HK\$'000 (Note c)	Special reserve HK\$'000 (Note d)	Capital reserve HK\$'000 (Note e)	Share-based payment reserve HK\$'000	Exchange translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity 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
Loss for the period	-	-	-	-	-	-	-	-	-	-	(5,864)	(5,864)	(2,270)	(8,134)
Other comprehensive income (expense) for the period:														
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	1,123	-	-	-	1,123	-	1,123
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	1	-	1	-	1
Share of other comprehensive income of a joint venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences arising on translation of foreign operation	-	-	-	-	-	-	-	-	(25,540)	-	(25,540)	(6,666)	(32,206)	
Total other comprehensive income (expense) for the period	-	-	-	-	-	-	-	1,123	(25,539)	-	(24,416)	(6,666)	(31,082)	
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	1,123	(25,539)	(5,864)	(30,280)	(8,936)	(39,216)	
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	7,719	-	-	-	-	7,719	(26,353)	(18,634)
Contribution by non-controlling interests upon incorporation of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	34,813	34,813	
Lapse of share options	-	-	-	-	-	-	-	(19,968)	-	19,968	-	-	-	
Cancellation of repurchased ordinary shares (note f)	(1,194)	(4,229)	-	3,293	-	-	-	-	-	-	(2,130)	-	(2,130)	
At 30 September 2016 (Unaudited)	223,990	881,489	2,935	-	26,217	154,381	6,025	34,026	31,174	(26,969)	118,069	1,451,337	43,947	1,495,284

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

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 nine months ended 30 September 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.

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 30 September 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/ chief executive	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%	17,000,000 (L)	68,710,000 (L)	2.39%
	Interest of spouse	10,074,000 (L)		0.35%	-		
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)		17.67%	11,600,000 (L)	520,621,000 (L)	18.10%
	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	-		-	1,500,000 (L)	1,500,000 (L)	0.05%
Mr. Wang Manquan (Note 4)	Beneficial owner	512,000		0.02%	5,000,000 (L)	5,512,000 (L)	0.19%

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

Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 41,636,000 shares and 17,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and 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 11,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. 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 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.
4. Mr. Wang Manquan is interested in 512,000 Shares and 5,000,000 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.

(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 September 2016, the following directors and chief executive of the Company were interested in the following options under the Share Option Plan:

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

Save as disclosed above, as at 30 September 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 September 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%	11,600,000 (L)	520,621,000 (L)	18.10%
	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 11,600,000 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 11,600,000 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 September 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 September 2016, options to subscribe for an aggregate of 145,388,000 shares were outstanding (including the directors and chief executive of the Company as disclosed above). Details of which as at 30 September 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 September 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	-	-	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	-	-	240,996,000	145,388,000			

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. 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, 27 October 2016