



中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**FINAL RESULT ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

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

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

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This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

FINAL RESULTS

The board of directors (“Directors”) of China Ground Source Energy Industry Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	4	619,053	319,354
Cost of sales		<u>(508,454)</u>	<u>(199,621)</u>
Gross profit		110,599	119,733
Other income	5	55,469	96,995
Selling and distribution expenses		(31,076)	(28,931)
Administrative expenses		(122,208)	(121,798)
Fair value changes on investment properties		23,256	13,235
Other operating gains (expenses)		5	(946)
Impairment loss recognised in respect of trade receivables		(9,003)	(54,383)
Impairment loss recognised in respect of other receivables		–	(1,849)
Reversal of impairment loss recognised in respect of trade receivables in prior years		<u>4,238</u>	<u>1,260</u>
Profit from operations		31,280	23,316
Share of results of associates		483	(382)
Share of result of a joint venture		128	798
Share-based payment expenses		(5,309)	(7,747)
Finance costs	6	<u>(36,106)</u>	<u>(38,944)</u>
Loss before tax		(9,524)	(22,959)
Income tax expense	7	<u>(22,105)</u>	<u>(25,147)</u>
Loss for the year	8	<u><u>(31,629)</u></u>	<u><u>(48,106)</u></u>
Loss for the year attributable to:			
Owners of the Company		(30,816)	(47,506)
Non-controlling interests		<u>(813)</u>	<u>(600)</u>
		<u><u>(31,629)</u></u>	<u><u>(48,106)</u></u>
Loss per share	10		
Basic (HK cents)		<u><u>(1.07)</u></u>	<u><u>(1.64)</u></u>
Diluted (HK cents)		<u><u>(1.07)</u></u>	<u><u>(1.64)</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss for the year	<u>(31,629)</u>	<u>(48,106)</u>
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain (loss) on revaluation of leasehold land and buildings	<u>1,869</u>	<u>(8,138)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translating foreign operations	(59,318)	(46,608)
Fair value (losses) gains on available-for-sale investments	(1,092)	138
Share of other comprehensive expense of a joint venture	(728)	–
Share of other comprehensive expenses of associates	<u>(746)</u>	<u>(90)</u>
	<u>(61,884)</u>	<u>(46,560)</u>
Other comprehensive expense for the year	<u>(60,015)</u>	<u>(54,698)</u>
Total comprehensive expense for the year	<u>(91,644)</u>	<u>(102,804)</u>
Total comprehensive expense attributable to:		
Owners of the Company	(88,029)	(100,903)
Non-controlling interests	<u>(3,615)</u>	<u>(1,901)</u>
	<u>(91,644)</u>	<u>(102,804)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipment		326,850	335,183
Investment properties		513,383	373,770
Deposits paid for acquisition of land use rights		119,965	86,621
Goodwill		465,760	465,760
Intangible assets		–	–
Interests in associates		36,579	29,737
Interest in a joint venture		6,766	7,366
Available-for-sale investments		98,289	106,203
Prepayments		8,371	12,537
Deferred tax assets		26,319	26,890
		1,602,282	1,444,067
Current Assets			
Inventories		60,925	39,795
Properties held for sale under development		88,546	118,688
Deposit paid for acquisition of a subsidiary		–	77,685
Trade and retention receivables	<i>11</i>	227,630	226,336
Prepayments, deposits and other receivables		152,859	114,953
Amounts due from customers for contract work		317,832	297,086
Amounts due from non-controlling interests		–	1,850
Amounts due from associates		6,474	12,612
Amount due from a related company		526	1,224
Held-for-trading financial assets		64	59
Available-for-sale investments		–	102,625
Cash held at non-bank financial institutions		3,812	8,619
Bank balances and cash		70,119	136,199
		928,787	1,137,731
Current Liabilities			
Trade payables	<i>12</i>	208,950	182,368
Accrued liabilities, deposits received and other payables		171,098	173,969
Amounts due to customers for contract work		12,207	11,398
Amount due to a joint venture		1,393	–
Amount due to a non-controlling interest		24,586	–
Borrowings		–	477,326
Tax payable		148,209	139,030
		566,443	984,091
Net Current Assets		362,344	153,640
Total Assets less Current Liabilities		1,964,626	1,597,707

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-Current Liabilities		
Receipt in advance	2,823	5,615
Deferred income	9,804	8,091
Borrowings	446,662	–
Deferred tax liabilities	<u>64,035</u>	<u>63,550</u>
	<u>523,324</u>	<u>77,256</u>
Net Assets	<u><u>1,441,302</u></u>	<u><u>1,520,451</u></u>
Capital and Reserves		
Share capital	223,990	225,184
Reserves	<u>1,171,857</u>	<u>1,250,844</u>
Equity attributable to owners of the Company	<u>1,395,847</u>	1,476,028
Non-controlling interests	<u>45,455</u>	<u>44,423</u>
Total Equity	<u><u>1,441,302</u></u>	<u><u>1,520,451</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL AND BASIS OF PREPARATION

China Ground Source Energy Industry Group Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

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

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

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

Amendments to 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 and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ²
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2017.

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

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective date not yet been determined.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

4. REVENUE AND SEGMENT INFORMATION

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sales and installation of shallow ground source energy utilisation system	417,724	290,660
Sales of air conditioning heat pump products	172,518	–
Maintenance services for shallow ground source energy utilisation system	10,689	8,160
Rental income (<i>Note (i)</i>)	<u>18,122</u>	<u>20,534</u>
	<u>619,053</u>	<u>319,354</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gross rental income	18,122	20,534
Less: direct operating expenses from investment properties that generated rental income during the year	<u>–</u>	<u>(1,080)</u>
Net rental income	<u>18,122</u>	<u>19,454</u>

The Group's reportable and operating segments, based on information reported to the chief operating decision maker ("CODM"), being the chief executive of the Company, for the purpose of resource allocation and performance assessment focuses on type of goods or services delivered or provided are as follows:

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

The air conditioning heat pump segment is a new business segment of the Group through expansion of business operation during the year.

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

Segment revenue and results

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

For the year ended 31 December 2016

	Shallow ground source energy <i>HK\$'000</i>	Air conditioning heat pump <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
External sales	<u>428,413</u>	<u>172,518</u>	<u>–</u>	<u>18,122</u>	<u>619,053</u>
Segment results	<u>35,175</u>	<u>1,621</u>	<u>4,481</u>	<u>64,649</u>	105,926
Share of results of associates					483
Share of result of a joint venture					128
Unallocated other income					2,053
Unallocated expenses					(82,008)
Unallocated finance costs					<u>(36,106)</u>
Loss before tax					<u>(9,524)</u>

For the year ended 31 December 2015

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent profit earned by or loss from each segment without allocation of share of results of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and interest on borrowings. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment assets and liabilities

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

Segment assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Shallow ground source energy	1,387,444	1,377,736
Air conditioning heat pump	60,441	–
Securities investment and trading	99,906	288,908
Properties investment and development	<u>832,683</u>	<u>690,657</u>
Total segment assets	2,380,474	2,357,301
Unallocated corporate assets	<u>150,595</u>	<u>224,497</u>
Consolidated total assets	<u><u>2,531,069</u></u>	<u><u>2,581,798</u></u>

Segment liabilities

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Shallow ground source energy	331,401	331,427
Air conditioning heat pump	42,352	–
Securities investment and trading	4,353	3,429
Properties investment and development	<u>26,776</u>	<u>46,585</u>
Total segment liabilities	404,882	381,441
Unallocated corporate liabilities	<u>684,885</u>	<u>679,906</u>
Consolidated total liabilities	<u><u>1,089,767</u></u>	<u><u>1,061,347</u></u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain other receivables, interests in associates and a joint venture, deferred tax assets, amounts due from associates and a related company, cash held at non-bank financial institutions, bank balances and cash; and
- all liabilities are allocated to operating segments other than amounts due to an non-controlling interest and a joint venture, borrowings, deferred tax liabilities and tax payable.

Other segment information

For the year ended 31 December 2016

	Shallow ground source energy <i>HK\$'000</i>	Air conditioning heat group <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results or segment assets:					
Additions to non-current assets (Note)	18,387	5,239	7,105	119,790	150,521
Impairment loss recognised of trade receivables	9,003	–	–	–	9,003
Fair value changes on held-for- trading financial assets	–	–	(5)	–	(5)
Reversal of impairment loss recognised in respect of trade receivables in prior years	(4,238)	–	–	–	(4,238)
Depreciation	11,373	595	–	685	12,653
Fair value changes on investment properties	–	–	–	(23,256)	(23,256)
Share-based payment expenses	5,309	–	–	–	5,309
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:					
Interests in associates	36,579	–	–	–	36,579
Interest in a joint venture	6,766	–	–	–	6,766
Share of results of associates	(483)	–	–	–	(483)
Share of result of a joint venture	(128)	–	–	–	(128)
Interest income	(409)	(66)	–	–	(475)
Interest expenses	36,106	–	–	–	36,106
Income tax expense (credit)	27,152	1,269	–	(6,316)	22,105

For the year ended 31 December 2015

	Shallow ground source energy <i>HK\$'000</i>	Air conditioning heat group <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Properties investment and development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment results or segment assets:					
Additions to non-current assets (Note)	2,303	–	12,415	111,825	126,543
Impairment loss recognised in respect of trade receivables	54,383	–	–	–	54,383
Impairment loss recognised in respect of other receivables	1,849	–	–	–	1,849
Fair value changes on held-for- trading financial assets	–	–	946	–	946
Reversal of impairment loss recognised in respect of trade receivables in prior years	(1,260)	–	–	–	(1,260)
Depreciation	14,911	–	–	304	15,215
Fair value changes on investment properties	–	–	–	(13,235)	(13,235)
Share-based payment expenses	7,747	–	–	–	7,747
Amounts regularly provided to the CODM but not included in the measure of segment results or segment assets:					
Interests in associates	29,737	–	–	–	29,737
Interest in a joint venture	7,366	–	–	–	7,366
Share of result of a joint venture	(798)	–	–	–	(798)
Share of results of associates	382	–	–	–	382
Interest income	(505)	–	–	–	(505)
Interest expenses	38,944	–	–	–	38,944
Income tax expense	21,082	–	–	4,065	25,147

Note:

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

Geographical information

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

Information about major customers

Turnover from customers contributing over 10% of the total sales of the Group in both years are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	<u>135,527#</u>	<u>N/A*</u>

Sales are derived from the trading of air conditioning heat pump products.

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bad debts recovery	1,300	3,670
Bank interest income	475	505
Compensation received	–	582
Dividend income from held-for-trading financial assets	1	86
Exchange gains	811	3,994
Gain on disposals of investment properties	23,271	–
Government grants (<i>Note a</i>)	24,137	71,836
Investment income on available-for-sale investments	4,475	15,411
Sale of scrap materials	232	444
Others	<u>767</u>	<u>467</u>
	<u>55,469</u>	<u>96,995</u>

Notes:

(a) Included in the amount of government grants recognised during the year ended 31 December 2016, approximately HK\$24,137,000 (2015: HK\$71,429,000) were received in respect of certain research projects of the Group, and the Group fulfilled the relevant granting criteria and recognised the amount as other income immediately during the year. No government grants previously received (2015: HK\$407,000) were recognised as deferred income utilised during the year.

6. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on borrowings	<u>36,106</u>	<u>38,944</u>

7. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
PRC EIT	18,984	30,604
Deferred tax	<u>3,121</u>	<u>(5,457)</u>
	<u>22,105</u>	<u>25,147</u>

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

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

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

Pursuant to the income tax rules and regulations of the PRC, certain foreign investment subsidiaries were recognised as high technology enterprises in 2008 and the income tax rate applicable to these subsidiaries are 15% for the year ended 31 December 2016 (2015: 15%).

8. LOSS FOR THE YEAR

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including directors’ emoluments		
– Wages and salaries	66,520	57,355
– Retirement benefits scheme contributions	10,588	10,808
– Share-based payment expenses	<u>5,309</u>	<u>7,747</u>
	<u>82,417</u>	<u>75,910</u>
Cost of inventories sold	465,983	188,440
Depreciation of property, plant and equipment	12,653	15,215
Auditor’s remuneration	2,382	2,410
Minimum lease payments under operating leases in respect of land and buildings	8,310	8,949
Fair value change on held-for-trading financial assets	(5)	946
Loss on uncertainty in respect of collectability of amounts due from customers for contract work (included in cost of sales)	42,471	11,181
Research costs (included in administrative expenses)*	<u>11,199</u>	<u>7,549</u>

* Research costs included staff costs and depreciation of property, plant and equipment used in research activities.

9. DIVIDENDS

During the years ended 31 December 2016 and 2015, no final dividend in respect of the years ended 31 December 2015 and 2014, respectively, were declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2016 has been proposed by the directors of the Company.

10. LOSS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>(30,816)</u>	<u>(47,506)</u>
	2016 <i>'000</i>	2015 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares	<u>2,876,500</u>	<u>2,898,614</u>

Note:

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price for shares for the years ended 31 December 2016 and 2015.

11. TRADE AND RETENTION RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	204,937	215,331
Less: allowance for doubtful debts	<u>(59,646)</u>	<u>(58,651)</u>
	145,291	156,680
Retention receivables	<u>82,339</u>	<u>69,656</u>
	<u>227,630</u>	<u>226,336</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 90 days	67,210	48,485
91 to 180 days	4,301	52,347
181 to 365 days	18,233	11,140
Over 365 days	<u>55,547</u>	<u>44,708</u>
	<u>145,291</u>	<u>156,680</u>

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately HK\$78,081,000 (2015: HK\$106,328,000) which were past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 365 days	22,534	61,620
Over 365 days	55,547	44,708
	<u>78,081</u>	<u>106,328</u>

The Group's neither past due nor impaired trade receivables of approximately HK\$67,210,000 (2015: HK\$50,352,000) mainly represented sales made to creditworthy customers for whom there was no recent history of default.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	58,651	6,301
Exchange realignment	(3,770)	(773)
Impairment losses recognised	9,003	54,383
Impairment losses reversed	(4,238)	(1,260)
At 31 December	<u>59,646</u>	<u>58,651</u>

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK\$59,646,000 (2015: HK\$58,651,000) which have been placed in severe financial difficulties.

12. TRADE PAYABLES

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 90 days	82,432	38,658
91 to 180 days	13,863	17,517
181 to 365 days	15,745	36,412
Over 365 days	<u>96,910</u>	<u>89,781</u>
	<u><u>208,950</u></u>	<u><u>182,368</u></u>

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

13. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2017, a share transfer agreement was entered into between the Group and 鹽城潤瀛實業投資有限公司 (“鹽城潤瀛”), pursuant to which 鹽城潤瀛 agreed to purchase and the Group agreed to sell, 100% equity interest in 恆有源科技發展集團鹽城有限公司 at the consideration of RMB15,844,000 (equivalent to approximately HK\$18,221,000). Up to the date of this announcement, the disposal is yet to be completed.

FINANCIAL REVIEW

For the year ended 31 December 2016, the loss for the year of the Group amounted to approximately HK\$31.629 million and revenue amounted to HK\$619.053 million as compared with the loss of the Group amounted to HK\$48.106 million and revenue amounted to approximately HK\$319.354 million for the year ended 31 December 2015.

The following table provides a brief summary of the financial results of the Group. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2016 and 2015.

	2016		2015	
	HK\$'000	%	HK\$'000	%
Turnover:				
– Shallow ground energy utilisation system	428,413	69.2	298,820	93.6
– Air conditioning heat pump	172,518	27.8	–	–
– Properties investment and development	18,122	3.0	20,534	6.4
– Total turnover	619,053	100	319,354	100

OPERATION RESULTS

Total revenue from operations for the year ended 31 December 2016 was approximately HK\$619.053 million as compared with HK\$319.354 million for the year ended 31 December 2015. Revenue from the traditional shallow ground source energy utilisation systems had increased during the year due to the fact that the Group promoted renewable energy heating in northern China vigorously, and obtained coal to electricity projects in the Beijing and the surrounding areas. The Group also strengthened sale and promotion, more sales staff were recruited, hence, the Group secured additional projects. In addition, the Group commenced the trading business of air conditioning heat pump products. Thus, the revenue increased during the year.

During the year ended 31 December 2016, the Group recorded a net loss of approximately HK\$31.629 million compared with net loss of approximately HK\$48.106 million for the year ended 31 December 2015.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2016 was approximately HK\$110.599 million, represented the gross profit margin of 17.9% (2015: approximately HK\$119.733 million, represented the gross profit margin of 37.5%). The gross profit margin decreased, it was mainly attributable to the fact that the Group built certain demonstration projects in new districts with low gross profit during the year. Although the number of projects and the revenue increased, the overall gross profit margin of the Group as compared with last year had decreased due to these low gross profit contracts. Besides, since the trading of air conditioning heat pump products is a competitive business in the mainland China, the related gross profit was low. As stated above, the gross profit was lower as compared with last year.

SELLING & DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses for this year increased by approximately HK\$2.145 million, or 7.4% as compared with that of the year ended 31 December 2015. The selling and distribution expenses increased was mainly attributable to the increase in number of marketing staff for the promotion of the business, especially Ground Source Heating Devices, hence salaries and related selling and distribution expenses rose this year.

Administrative expenses amounted to approximately HK\$122.208 million and HK\$121.798 million for the years ended 31 December 2016 and 2015 respectively. The increase in administrative expenses as compared with last financial reporting period was mainly due to the increase in staff costs and research costs.

During the year ended 31 December 2016, the Group incurred share-based payment expenses of HK\$5.309 million (2015: 7.747 million) which was due to the fact that the Group granted share options to directors, officers, employees and business partners which lead to the related expenses.

SEGMENTAL INFORMATION

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

Shallow ground source energy

The Group had committed to promote the non-combustion integrated heating and cooling emerging industry development. To further optimise the existing resources and consolidate the industrial chain service capabilities, the Group formed four professional segments: 1) provision of shallow ground source energy, 2) intelligent manufacturing, 3) maintenance and management of intelligent heating (cold) system, 4) intelligent heating engineering.

Air conditioning heat pump

The Group commenced the trading business of air conditioning heat pump products in order to expand the scope of business of the Group during the year.

Securities investment and trading

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

Properties investment and development

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

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

FINANCIAL RESOURCES AND LIQUIDITY

Net current assets of the Group as at 31 December 2016 was approximately HK\$362.344 million (2015: approximately HK\$153.640 million). As at 31 December 2016, the Group had cash and bank balances of approximately HK\$70.119 million (2015: approximately HK\$136.199 million). Cash on the consolidated statement of financial position include funds available for general corporate purposes.

CHARGES OF GROUP ASSETS

As at 31 December 2016, no assets of the Group have been charged (2015: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

As at 31 December 2016, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings (including interest-bearing borrowings) to the equity (including all capital and reserves) of the Company, was 32.0% as at 31 December 2016 (2015: 32.3%). The gearing ratio was maintained at similar level as compared with last year.

EMPLOYEES

As at 31 December 2016, the Group has approximately 650 employees (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. In addition, discretionary bonuses will be paid to staff based on individual and Group's performance.

SHARE OPTION SCHEMES

The Company has a share option plan that provides for the issuance of options to its directors, officers and employees. The detailed disclosures relating to the Company's share option scheme are set out in note 45 to the consolidated financial statements of the Company's Annual Report.

At 31 December 2016, the number of shares options had been granted and remained outstanding under the Share Option Plan 2010 was 433,020,000, representing approximately 15% of the shares of the Company in issue at that date (2015: 386,384,000, representing approximately 13% of the shares of the Company in issue at 31 December 2015). During the year ended 31 December 2016, 287,632,000 options were granted on 8 December 2016, the estimated fair values of the options granted on that date was approximately HK\$17,943,000.

CONTINGENT LIABILITIES

As at 31 December 2016, the Company did not provide any form of guarantees for any companies and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

CAPITAL STRUCTURE

During the year, 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 31 December 2016, the total number of issued and fully paid shares was 2,876,375,117.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitments are set out in note 44 to the consolidated financial statements of the Company's Annual Report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

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

MAJOR ACQUISITIONS AND DISPOSALS

(A) Acquisition of a subsidiary accounted for assets acquisition

In 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 would be satisfied by cash.

In 2016, HYY Hangzhou entered into a supplementary agreement with 香港嘉德威 and Mr. Chen Zaixian to adjust the consideration to RMB65,100,000 (equivalent to HK\$77,685,000). The acquisition of Hangzhou Goodway was completed on 21 December 2016.

(B) Acquisition of additional interest in subsidiaries without change of control

On 21 January 2016, a share transfer agreement was entered into between the Company's indirect wholly-owned subsidiary, 北控恒有源能源有限公司 ("北控恒有源") and 北京市四博連通用機械新技術公司("北京市四博連"), pursuant to which 北控恒有源 agreed to purchase and 北京市四博連 agreed to sell, the 5.387% equity interest of 恒有源科技發展集團有限公司 ("HYY") at the consideration of RMB15,750,000 (equivalent to approximately HK\$18,635,000). The acquisition was completed in February 2016 and, thereafter, HYY became an indirect wholly-owned subsidiary of the Group.

(C) Disposal of investment properties

On 30 December 2016, 北京市四博連 as a purchaser and HYY as a vendor entered into the Property Usage Right Transfer Agreement, pursuant to which, HYY agreed to sell, and 北京市四博連 agreed to purchase, the Property Usage Right with the gross floor area of 2,253.98 square metres at the consideration of approximately RMB45,080,000 (equivalent to approximately HK\$50,999,000).

The acquisitions and disposals as disclosed above during the year are set out in note 42, 43 and 17 respectively to the consolidated financial statements of the Company's Annual Report.

BUSINESS REVIEW AND OUTLOOK

The president Xi Jinping raised six most concerning issues in 2016, the first one is the clean heating service in winter in Chinese northern region: To develop clean heating for the Chinese northern region has the significant relations on residents' warm winter, reducing the fog and haze, as well as the important content of revolution of energy production and consumption, and life style in rural area, which point out the clear direction for the Group's healthy development. During this year, the nation focuses on the implementation of "Coal to clean energy" to replace coal resource with high efficient electricity by using matured power grid to support renewable energy network, establishing individual heating infrastructures in rural areas. We grasped the opportunity to launch the operation of "Fight for 70 days in Beijing, Hebei and Tianjin " to carry out no-coal transformation projects for whole village—"Heating for Villages with Ground Source Energy" in rural area in Beijing and Hebei regions, installing HYY Ground Source Heating Device to realize energy revolution shifting from traditional coal-based heating to renewable ground source energy heating with renewable ground source energy as primary heating energy and complemented by electric power. We achieved installations of over 30,000 sets in total of HYY Ground Source Heating Device for different villages covering heating area of over 1 million square meters. Among these projects, Xizha Village in Haidian District as the first start and completion project received high recognition and appreciation from leaders at all levels in Beijing; modification work for 1,500 households was completed in Longquanwu Village offering heating/cooling service with ground source energy for over 10,000 people; Yihebao Village as the first village to complete the Coal to electricity project in Hebei region and 246 households have enjoyed the life quality improvement by intelligent heating with no combustion. Ground source energy as substitute energy for providing intelligent heating for buildings with no combustion and zero emission has already proven by the "Program of Replacing Coal with High-Efficiency Electricity — Heating for Villages with Ground Source Energy".

The Chinese government has already considered ground source energy as one of the effective way to eliminate haze, and formulated 13.5 development plan of geothermal energy. Expected to 2020, heating area by using ground source energy will be increased by 700 million square meters with market size over RMB200 billion. According to the development plan of government, the Group has already formulated 13.5 development program of the Group which will actively establish the four major segments, i.e. provision of ground source energy, intelligent heating engineering, maintenance and management of intelligent heating and intelligent manufacturing, building the brands of HYY and Hong Yuan to become the first brand in intelligent heating industry and to become the first production capacity in the emerging industry of integrated heating and cooling system with ground source energy in order to striving to be the pioneer in this industry.

Currently, the Group has developed three primary product systems, namely HYY Ground Energy Heat Pump Environmental System corresponding to the traditional heating, Distributed Ground Energy Station for Heating and Cooling corresponding to the central heating for city and HYY Ground Source Heating Device corresponding to the individual heating for rural households which cover different geological conditions, climate conditions, utility conditions, and building types, providing intelligent heating products with no combustion to different customers.

Meanwhile, in cooperation with the well-known industrial software development company in the PRC to develop 3D design tools so as to enhancing the product design ability and efficiency. The Group also has continued its policy on the investment in research and development to guarantee the competitive edge of advance technology. At the same time, the Group also cooperates with the third party to build intelligent heating information and monitoring platform to realise the real time monitoring of the project site, machine house, on-line monitoring the system operation data, and provision of real time technical guidance in maintenance project site, achieving automatic, intelligent, and integrated information management to collect the customers' opinion and provide prompt response to different problems, and using big data to improve project management level.

In the future, the Group will insist to stick to the market as its guide; to satisfy the customers demand as its target; consultation service as its lead, technology integration as its foundation, products manufacturing as its base, and application demonstration project as its support so as to enhancing our technology and service capability comprehensively. The Group will remember its original intention and continue to focus on the development and research of ground source energy as substitute energy for heating and the industrialization development of original technology, striving to become the best solution service provider of intelligent heating and cooling system.

CORPORATE GOVERNANCE

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

Under code provision A.2.1 of the Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Prior to 6 July 2016, Mr. Xu Shengheng acted as Joint Chairman of the Board and Chief Executive Officer. Although the roles of chairman and chief executive officer were not separate, we considered that, to a certain extent, balance of power and authority can be achieved by the appointment of Mr. Liu Dajun and Mr. Xu Shengheng as Joint Chairman of the Board. 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.

Due to engagement in other business, Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, did not attend the annual general meeting held on 30 May 2016 and the two extraordinary general meetings held on 30 May 2016 and 26 September 2016 respectively. 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.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The Audit Committee currently comprises four independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui.

The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2016 (the "Review Period") and has provided advice and comments thereon. The Audit Committee held five meetings during the period under review.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on the preliminary announcement.

SECURITIES TRANSACTIONS BY DIRECTORS

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on 28 June 2017. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

Closure of Register of Members

For determining the identity of the shareholders to attend and vote at the AGM, the register of members of the Company will be closed from 22 June 2017 to 28 June 2017 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 21 June 2017.

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.

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

Hong Kong, 29 March 2017

As at the date of this announcement, the Board comprises Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Zhao Youmin as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui as independent non-executive Directors.