



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)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

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

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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 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 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.

HIGHLIGHTS

Revenue for the nine months ended 30 September 2017 (the “Review Period”) amounted to approximately HK\$479,582,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$1,846,000.

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 2016.

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow ground source energy	233,148	106,150	468,052	286,849
– Properties investment	3,974	4,256	11,530	12,900
Total revenue	<u>237,122</u>	<u>110,406</u>	<u>479,582</u>	<u>299,749</u>
(Loss) Profit for the period	<u>(762)</u>	<u>(10,312)</u>	<u>1,846</u>	<u>(8,134)</u>
Profit (Loss) attributable to owners of the Company	<u>896</u>	<u>(10,435)</u>	<u>6,956</u>	<u>(5,864)</u>

During the Review Period, the Group's revenue amounted to approximately HK\$468,052,000 which was contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$286,849,000 for the corresponding period last year. The revenue increased by approximately HK\$181,203,000 as compared with that of corresponding period last year. The Group's gross profit margin decreased from 34.6% in last corresponding period to 26.7% in the current period, it was mainly attributable to the fact that the loss on uncertainty in respect of collectability of amounts due from customers for contract work amounted to HK\$18,612,000 which was included in the cost of sales. And thus the gross profit margin decreased during this Review Period.

Other income decreased from approximately HK\$42,348,000 in the corresponding period last year to approximately HK\$3,772,000 for the nine months ended 30 September 2017. The decrease was mainly attributable to the decrease in 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\$17,570,000 and HK\$21,259,000 for the nine months ended 30 September 2017 and 2016 respectively. The selling and distribution expenses in the Review Period decreased as compared with the corresponding period last year due to the promotional and marketing activities of the relevant projects of the Group decreased during the Review Period.

During the Review Period, administrative expenses decreased by approximately HK\$9,895,000 or 11% as compared with that of nine months ended 30 September 2016. Administrative expenses decreased was mainly attributable to the effective control on the expenses, hence the administrative expenses decreased during the period.

Finance costs amounted to HK\$26,452,000 for the nine months ended 30 September 2017 as compared with approximately HK\$27,766,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Profit for the Review Period (for the nine months ended 30 September 2017) was approximately HK\$1,846,000, whereas a loss of HK\$8,134,000 was recorded for the corresponding period in last year.

BUSINESS REVIEW AND OUTLOOK

The Group always adheres to the industrial development with original "single-well heat exchange technology" which makes wider and stronger designability and scope of application of using renewable shallow ground source energy as alternative energy source for building heating in a clean and smart way, and matches with various suitable heat pump products according to different regions divided in the climate zoning map of buildings in China and the grade of shallow ground source energy. With the parallel temperature, guarantee for the national mandatory temperature standard for heating under the severest climatic conditions can be achieved. At present, we formed regional integrated dispersed

ground source station for cooling/heating, ground source energy heat pump environmental system, ground source heating devices system and renewable heating devices system combining air energy and ground source energy which fully correspond to the traditional energy heating mode, thus achieving more than 60% of the total energy consumption of buildings is renewable energy.

General Secretary Mr. Xi Jinping, in the fourteenth meeting of the Central Financial Leading Group, stressed that **“Promote clean heating in winters of North China not only relates to the warm winter for the public in the northern region, but also contributes to substantial reduction of smoggy days. This composes an important chapter of the revolution in energy generation and consumption, and the upgrading of rural livelihood. It should further pursue in the principles of enterprise-oriented, government-driven, residents acceptable to accelerate the increase in the proportion of clean heating”**. In 2017, the government at all levels continued to intensify their efforts in “replacing coal with clean energy” implementation this year. Taking Beijing as an example, in the rural areas of Beijing, the Group’s ground source heat pump system supplied heat to nearly 3,000 households, covering approximately 850,000 square meters with 85,000 KW of heat supply. Domestic heating system guarantees the supply of heat, which comes with a cooling system, and the Ground Source Heating Device with optional domestic hot water function with 20,000 KW of heat supply; the HYY Air Source Energy System with 16,000 KW of heat supply. Construction of the heating infrastructure has accelerated during the third quarter of this year covering 1.15 million square meters for rural households to ensure the region’s heat supply is combustion-free, emission-free, clean, efficient and safe by 15 November 2017.

Rural “coal to electricity” is the alternative energy for clean northern heating supply that makes use of shallow ground source energy for the northern area. Using the mature power grid supporting heat pump system, the renewable shallow ground source can be obtained in the neighbourhood to provide a clean, efficient and smart heat supply to construct a network of renewable heat energy in the urban and rural areas. This action definitely fulfills what everyone in this new era is looking forward to in having a better life. With this transformation of northern heat energy supply, we can contribute to eliminating the haze caused by heating.

In the coming period, the property company and maintenance company of the Group will continue to secure the operation immaculately. In the design of the headquarter of the Group’s invested company-Beijing Life Insurance Co., Ltd. (for details of the investment, please refer to the announcement of the Company dated 5 September 2017) which has selected the HYY heat pump environmental system for provision of heating, cooling and domestic hot water in its headquarters building. The Group will foster their own development in the emerging industry of integrated heating and cooling with ground source energy.

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 (collectively the “Group”) for the three months and nine months ended 30 September 2017 together with the unaudited comparative figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	237,122	110,406	479,582	299,749
Cost of sales		(200,160)	(74,102)	(351,558)	(195,905)
Gross profit		36,962	36,304	128,024	103,844
Other income		13	1,839	3,772	42,348
Fair value changes on investment properties		–	–	16,883	(5,845)
Selling and distribution expenses		(5,248)	(7,750)	(17,570)	(21,259)
Administrative expenses		(25,869)	(29,631)	(77,995)	(87,890)
Profit from operations		5,858	762	53,114	31,198
Share of results of associates		4,387	548	3,560	(101)
Share of result of a joint venture		668	996	(192)	20
Share-based payments		(2,527)	–	(7,581)	–
Finance costs		(9,395)	(9,067)	(26,452)	(27,766)
(Loss) Profit before tax		(1,009)	(6,761)	22,449	3,351
Income tax expense	4	247	(3,551)	(20,603)	(11,485)
(Loss) Profit for the period	5	(762)	(10,312)	1,846	(8,134)

	Three months ended		Nine months ended	
	30 September		30 September	
Notes	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other comprehensive income (expense):				
Fair value gains on available-for-sale investments	–	–	–	1,123
Gain on revaluation of leasehold land and building	–	–	5,630	–
Share of other comprehensive income of associates	102	11	113	1
Share of other comprehensive (expense) income of a joint venture	(18)	16	(6)	–
Exchange differences arising on translation of foreign operations	<u>30,488</u>	<u>(16,080)</u>	<u>59,836</u>	<u>(32,206)</u>
Total other comprehensive income (expenses) for the period	<u>30,572</u>	<u>(16,053)</u>	<u>65,573</u>	<u>(31,082)</u>
Total comprehensive income (expenses) for the period	<u>29,810</u>	<u>(26,365)</u>	<u>67,419</u>	<u>(39,216)</u>
(Loss) Profit attributable to:				
Owners of the Company	896	(10,435)	6,956	(5,864)
Non-controlling interests	<u>(1,658)</u>	<u>123</u>	<u>(5,110)</u>	<u>(2,270)</u>
	<u>(762)</u>	<u>(10,312)</u>	<u>1,846</u>	<u>(8,134)</u>
Total comprehensive income (expenses) attributable to:				
Owners of the Company	30,774	(14,605)	71,069	(30,280)
Non-controlling interests	<u>(964)</u>	<u>(11,760)</u>	<u>(3,650)</u>	<u>(8,936)</u>
	<u>29,810</u>	<u>(26,365)</u>	<u>67,419</u>	<u>(39,216)</u>
		(Restated)		(Restated)
Earnings (Loss) per share	7			
Basic and Diluted (HK cents)	<u>0.023</u>	<u>(0.323)</u>	<u>0.200</u>	<u>(0.182)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2017

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 Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY11110, 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.

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 and methods of computation used in the preparation of the third quarterly financial statements are consistent with those adopted in the annual report for the year ended 31 December 2016 (the “2016 Annual Report”), except for the adoption of the new and revised HKFRSs, which are effective for the financial year beginning on or after 1 January 2017. The adoption of the new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required. The third quarterly financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the 2016 Annual Report.

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 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.

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

3. REVENUE

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 is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Shallow ground source energy utilisation system	233,148	106,150	468,052	286,849
Rental income	3,974	4,256	11,530	12,900
	<u>237,122</u>	<u>110,406</u>	<u>479,582</u>	<u>299,749</u>

4. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
PRC enterprise income tax	(247)	3,551	16,560	13,679
Deferred tax	–	–	4,043	(2,194)
	<u>(247)</u>	<u>3,551</u>	<u>20,603</u>	<u>11,485</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the nine months ended 30 September 2017 (2016: 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 nine months ended 30 September 2017 and 2016.

5. (LOSS) PROFIT FOR THE PERIOD

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

	Three months ended 30 September		Nine months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cost of sales	200,160	74,102	351,558	195,905
Staff costs (including directors' emolument)	18,127	18,693	60,250	59,269
Depreciation and amortisation	2,130	3,040	6,750	9,019
Minimum lease payments under operating leases in respect of land and buildings	2,558	3,932	6,929	8,389

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 2017 (2016: nil).

7. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings (Loss)				
Earnings (Loss) for the purpose of basic and diluted earnings per share	<u>896</u>	<u>(10,435)</u>	<u>6,956</u>	<u>(5,864)</u>
Number of shares	'000	'000	'000	'000
		(Restated)		(Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share (<i>Note</i>)	<u>3,948,060</u>	<u>3,229,514</u>	<u>3,469,910</u>	<u>3,229,700</u>

Note: The calculation of diluted earnings per share for the three months and nine months ended 30 September 2017 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the three months and nine months ended 30 September 2017.

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 of shares for the three months and nine months ended 30 September 2016.

The weighted average number of ordinary shares for the basic and diluted earnings (loss) per share for the three months and nine months ended 30 September 2017 and 2016 are adjusted by the bonus element in the rights issue completed on 18 July 2017.

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

For the nine months ended 30 September 2017

	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
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
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

Attributable to owners of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i> <i>(Note a)</i>	Statutory reserve <i>HK\$'000</i> <i>(Note b)</i>	Assets			Special reserve <i>HK\$'000</i> <i>(Note d)</i>	Capital reserve <i>HK\$'000</i> <i>(Note e)</i>	Share-based payment reserve <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non-controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
				Treasury shares <i>HK\$'000</i>	revaluation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(Note c)</i>								
At 1 January 2017 (Audited)	223,990	881,489	2,935	-	28,086	154,381	2,975	31,811	36,483	(59,420)	93,117	1,395,847	45,455	1,441,302
Profit for the period	-	-	-	-	-	-	-	-	-	-	6,956	6,956	(5,110)	1,846
Other comprehensive income (expense) for the period:														
Gain on revaluation of leasehold land and building	-	-	-	-	5,630	-	-	-	-	-	-	5,630	-	5,630
Share of other comprehensive income of associates	-	-	-	-	-	-	-	-	-	113	-	113	-	113
Share of other comprehensive expenses of a joint venture	-	-	-	-	-	-	-	-	-	(6)	-	(6)	-	(6)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	58,376	-	58,376	1,460	59,836
Total other comprehensive income for the period	-	-	-	-	5,630	-	-	-	-	58,483	-	64,113	1,460	65,573
Total comprehensive income (expense) for the period	-	-	-	-	5,630	-	-	-	-	58,483	6,956	71,069	(3,650)	67,419
Issue of new shares under rights issue <i>(Note g)</i>	1,475	113,580	-	-	-	-	-	-	-	-	-	115,055	-	115,055
Transaction costs attributable to the issue of new shares <i>(Note g)</i>	-	(2,857)	-	-	-	-	-	-	-	-	-	(2,857)	-	(2,857)
Appropriation	-	-	356	-	-	-	-	-	-	-	(356)	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	7,581	-	-	7,581	-	7,581
At 30 September 2017 (Unaudited)	225,465	992,212	3,291	-	33,716	154,381	2,975	31,811	44,064	(937)	99,717	1,586,695	41,805	1,628,500

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.
- (g) On 18 July 2017, 1,150,550,046 ordinary shares were issued and allotted to the shareholders of the Company on the basis of two rights share for every five ordinary share for consideration of HK\$0.10 per share (the "Rights Issue"). The gross proceeds raised amounted to approximately HK\$ 115,055,000 (before transaction costs of approximately HK\$2,857,000) and resulted in the net increase in share capital and share premium of approximately HK\$1,475,000 and HK\$110,723,000 respectively. The Rights Issue was completed on 18 July 2017. Details of the Rights Issue are set out in the circular of the Company dated 19 May 2017 and prospectus of the Company dated 26 June 2017.

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

As at 30 September 2017, 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					
Mr. Xu Shengheng (Note 1)	Beneficial owner	711,646,600 (L)		17.67%	37,725,148 (L)	750,354,548 (L)	18.63%
	Interest of spouse	982,800 (L)		0.02%	-		
Ms. Chan Wai Kay Katherine (Note 2)	Beneficial owner	58,290,400 (L)		1.45%	43,788,119 (L)	116,182,119 (L)	2.89%
	Interest of spouse	14,103,600 (L)		0.35%	-		
Mr. Wang Manquan (Note 3)	Beneficial owner	716,800 (L)		0.02%	30,314,851 (L)	31,031,651 (L)	0.77%
Mr. Jia Wenzeng (Note 4)	Beneficial owner	-		-	4,827,920 (L)	4,827,920 (L)	0.12%
Mr. Wu Dehsheng (Note 5)	Beneficial owner	-		-	3,143,762 (L)	3,143,762 (L)	0.08%

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

Notes:

- Mr. Xu Shengheng ("Mr. Xu") is interested in 711,646,600 Shares and 37,725,148 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 982,800 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 982,800 Shares in which Ms. Luk is interested.

2. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 58,290,400 shares and 43,788,119 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. Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 14,103,600 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 14,103,600 Shares in which Mr. Chow is interested.
3. Mr. Wang Manquan is interested 716,800 Shares and 30,314,851 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. Jia Wenzeng is interested in 4,827,920 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.
5. Mr. Wu Desheng is interested in 3,143,762 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 2017, the following directors and chief executive of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Immediately before adjustment		Immediately after adjustment and as at 30 September 2017*	
			Exercise price per share HK\$	Number of share options outstanding	Exercise price per share HK\$	Number of share options outstanding
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000	0.379	13,024,158
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000	0.379	19,087,129
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990

Name of director	Date of grant	Exercise period	Immediately before adjustment		Immediately after adjustment and as at 30 September 2017*	
			Exercise price per share HK\$	Number of share options outstanding	Exercise price per share HK\$	Number of share options outstanding
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667	0.379	1,871,288
		9 September 2012 to 8 September 2020	0.426	1,666,667	0.379	1,871,288
		9 September 2013 to 8 September 2020	0.426	1,666,666	0.379	1,871,285
	8 December 2016	8 December 2016 to 31 December 2020	0.300	22,000,000	0.267	24,700,990
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000	0.379	1,684,158
	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.300	2,800,000	0.267	3,143,762

* *The number of outstanding share options and the exercise price of share options per share were adjusted as a result of completion of rights issue on 18 July 2017.*

Save as disclosed above, as at 30 September 2017, 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 2017, 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 (<i>Note 1</i>)	Beneficial owner	1,190,000,000 (L)		29.55%	-	1,190,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group (<i>Note 1</i>)	Interest of controlled corporation	1,190,000,000 (L)		29.55%	-	1,190,000,000 (L)	29.55%
Ms. Luk Hoi Man (<i>Note 2</i>)	Beneficial owner	982,800 (L)		0.02%	-	750,354,548 (L)	18.63%
	Interest of spouse	711,646,600 (L)		17.67%	37,725,148 (L)		

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

Notes:

- 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 1,190,000,000 Shares.
- Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 982,800 Shares. Mr. Xu is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 711,646,600 Shares and 37,725,148 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 2017, 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 2017, options to subscribe for an aggregate of 486,182,851 shares were outstanding (including the directors and chief executive of the Company as disclosed above). Details of which as at 30 September 2017 were as follows:

Date of grant of share options	As at 1 January 2017	Granted during the period	Adjusted during the period*	Exercised during the period	Lapsed during the period	As at 30 September 2017	Vesting period of share options	Exercise period of share options	Exercise price per share# HK\$
9 September 2010	50,388,000	–	6,186,249	–	–	56,574,249	–	9 September 2010 to 8 September 2020	0.379
9 September 2010	31,666,667	–	3,887,789	–	–	35,554,456	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
9 September 2010	31,666,667	–	3,887,789	–	–	35,554,456	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
9 September 2010	31,666,666	–	3,887,789	–	–	35,554,455	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
8 December 2016	71,600,000	–	8,790,495	–	–	80,390,495	–	8 December 2016 to 31 December 2020	0.267
8 December 2016	108,016,000	–	13,261,370	–	–	121,277,370	8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	0.267
8 December 2016	108,016,000	–	13,261,370	–	–	121,277,370	8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	0.267
	<u>433,020,000</u>	<u>–</u>	<u>53,162,851</u>	<u>–</u>	<u>–</u>	<u>486,182,851</u>			

* *The share options were adjusted as a result of the completion of rights issue on 18 July 2017. The number of ordinary shares of US\$0.01 each in the share capital of the Company to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 433,020,000 share options granted under the Share Option Scheme was adjusted to 486,182,851 ordinary shares of US\$0.01 each.*

The exercise price of share options per share was adjusted as a result of the completion of rights issue on 18 July 2017.

RIGHTS ISSUE

On 18 July 2017, the Company completed a rights issue by allotting and issuing 1,150,550,046 rights shares (the “Rights Shares”) at the rights issue price of HK\$0.10 per Rights Share. As at 30 September 2017, the total number of the issued ordinary shares was 4,026,925,163 shares. For more details of the Rights Issue, please refer to the prospectus of the Company dated 26 June 2017 (the “Rights Issue Prospectus”) and the announcement of the Company dated 17 July 2017 in relation to the results of the Rights Issue.

USE OF PROCEEDS FROM THE RIGHTS ISSUE

The Group completed the Rights Issue and obtained net proceeds, after expenses, of approximately HK\$112 million. As disclosed in the Rights Issue Prospectus, approximately 40%-50% of the net proceeds will be used on the payment of operational expenses and approximately 50%-60% of the net proceeds will be used on project-based related expenses. Up to 30 September 2017, approximately HK\$4.5 million was utilized for payment of operational expenses and the remaining balance was kept in the Company's bank account. The Directors intend to utilize such proceeds as stated in the Rights Issue Prospectus.

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, risk management and internal control systems of the Group and to provide advice and comments to the directors of the Company.

The audit committee currently comprises four independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qinghui. 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, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

As at the date of this announcement, the Board comprises Mr. An Yi, 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.

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

Hong Kong, 9 November 2017

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 the Company at www.cgsenergy.com.hk.