



中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2018**

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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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 GEM (the “GEM Listing Rules”) of The Stock Exchange 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 three months ended 31 March 2018 (the “Review Period”) amounted to approximately HK\$157,675,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$4,178,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and for the three months ended 31 March 2017.

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
– Shallow geothermal energy utilisation system	148,683	97,585
– Air conditioning heat pump	–	283
– Properties investment and development	8,992	3,739
	<u>157,675</u>	<u>101,607</u>
Profit for the period	<u>4,178</u>	<u>2,850</u>
Profit attributable to owners of the parent	<u>6,550</u>	<u>4,099</u>

During the Review Period, the Group’s revenue amounted to approximately HK\$157,675,000 which was mainly contributed by shallow geothermal energy utilisation business as compared with that of approximately HK\$101,607,000 for the corresponding period last year. The revenue increased by approximately HK\$56,068,000 as compared with that of corresponding period last year. The revenue of the shallow geothermal energy utilisation system increased during the year due to the fact that the Group had put great efforts to promote renewable shallow geothermal energy heating, especially in northern China. The Group secured projects in Hebei, Liaoning, Shanxi, Guizhou and other regions. During the Review Period, the Group commenced the projects located in Shanghai, Beijing and Jiangxi. Therefore, revenue has increased during this year. The Group’s gross profit margin decreased from 44.8% in last corresponding period to 37.9% in the current period. The profit margin maintains at a stable level.

Other income and gains decreased from approximately HK\$3,340,000 in the corresponding period last year to approximately HK\$229,000 for the three months ended 31 March 2018. This was mainly attributable to the one-off gain on disposal of subsidiaries during the three months ended 31 March 2017.

Selling and distribution expenses amounted to approximately HK\$6,989,000 and HK\$6,309,000 for the three months ended 31 March 2018 and 2017 respectively. The selling and distribution expenses in the Review Period increased as compared with the corresponding period last year due to the increase in the promotion and marketing activities in Beijing, Tianjin and Hebei by the Group during the Review Period, in order to expand the Group's business scale.

During the Review Period, administrative expenses increased by approximately HK\$2,467,000 or 9.5% as compared with that of three months ended 31 March 2017. Administrative expenses increased mainly due to the increase in staff costs. The Group recruited more manpower to cope with the increased projects.

Finance costs amounted to approximately HK\$12,399,000 was recorded for the three months ended 31 March 2018 (including guarantee fee on bank loans amounted to approximately HK\$2,480,000) as compared with approximately HK\$7,931,000 for last corresponding period. The finance costs was mainly represented the interest expense on the loan.

For the three months ended 31 March 2018, the profit for the period was approximately HK\$4,178,000, whereas it was approximately HK\$2,850,000 for the corresponding period in last year.

BUSINESS REVIEW AND OUTLOOK

The Group has always been committed to the transformation of heating energy in North China. It focuses on the use of shallow geothermal energy as an alternative energy for heating in North China, promotes the transition from combustion heating with primary energy to combustion-free and zero-emission heating with renewable energy, and lends strong support to the development of the integrated heating-cooling emerging industry. Relying on the original single-well circulation heat exchange geothermal energy collection technology, the Group has fostered five business segments of emerging industries: planning and design; renewable energy supply (shallow geothermal energy); intelligent manufacturing (heat pump); construction of heating and cooling systems; operation and maintenance of heating and cooling systems. These business segments are fully connected with the "economical" traditional centralized heating with combustion and the "thrifty" self-heating method.

In order to adapt to the transformation of heating energy in Beijing, Tianjin, Hebei and the "2+26 Cities", renewable energies under stable supply matches with heat pumps under stable operation in achieving combustion-free and zero-emission heating to guarantee indoor temperature and protect outdoor environment. The Group builds a development platform of integrated heating-cooling emerging industry on which several well-regulated, self-operating business divisions with independent accounting are set up. They work in collaboration with the Group's five professional companies with design qualification, construction qualification, property qualification, and production qualification to speed up the development of clean and smart heating.

In the first quarter, the inspection of the HYY Heat Pump Production Base was completed and a national industrial product production license was obtained. This progress creates more favorable conditions for the R&D and production of heat pumps and lays the foundation for the Group to produce heat pumps under different brands and satisfy multi-level, differential, and full-coverage needs for heating necessities.

During the review period, the Group completed the construction of a 8,000KW distributed geothermal heating and cooling station, which was a comprehensive energy application project of the Citizen Service Center in Xiong'an New District. As the first large-scale comprehensive project in the high-profile Xiong'an New District, the subsidiary company, Ever Source Science & Technology Development Group Co., Ltd., undertook the construction of all the geothermal energy collection systems and all the machine room equipment and exterior line installation systems in the project. It also highlighted the original single-well circulation heat exchange geothermal energy collection technology that came into being in China. After the project was formally started on 13 January 2018, the construction team kept working on the construction site during the Spring Festival and lived up to the commitment of completing the key tasks within 480 hours. Many of the tasks were advanced by HYY so quickly that they were called the "Xiong'an speed". The efficient work guaranteed the overall progress of the Xiong'an Citizen Service Center Project.

We will seize the great opportunity of the current transformation and development of heating energy in North China and further strengthen comprehensive budget management to accelerate our development.

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 referred to as the "Group") for the three months ended 31 March 2018 together with the unaudited comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the three months ended 31 March 2018

	Notes	Three months ended	
		31 March 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	157,675	101,607
Cost of sales		<u>(97,876)</u>	<u>(56,021)</u>
Gross profit		59,799	45,586
Other income and gains	3	229	3,340
Selling and distribution expenses		(6,989)	(6,309)
Administrative expenses		(28,306)	(25,839)
Finance costs	4	(12,399)	(7,931)
Share of profits and losses of:			
A joint venture		293	(426)
Associates		(2,970)	(314)
Share-based payment expenses		<u>(842)</u>	<u>(2,527)</u>
Profit before tax	5	8,815	5,580
Income tax expense	6	<u>(4,637)</u>	<u>(2,730)</u>
Profit for the period		<u>4,178</u>	<u>2,850</u>
Attributable to:			
Owners of the parent		6,550	4,099
Non-controlling interests		<u>(2,372)</u>	<u>(1,249)</u>
		<u><u>4,178</u></u>	<u><u>2,850</u></u>

	Three months ended	
	31 March	
	2018	2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>4,178</u>	<u>2,850</u>
Other comprehensive income/(loss)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	2	1
Exchange differences:		
Exchange differences on translation of foreign operations	46,796	8,455
Share of other comprehensive income/(loss) of a joint venture	2	(1)
Share of other comprehensive loss of associates	<u>(20)</u>	<u>(1)</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>46,780</u>	<u>8,454</u>
Total comprehensive income for the period, net of tax	<u>50,958</u>	<u>11,304</u>
Attributable to:		
Owners of the parent	51,928	12,276
Non-controlling interests	<u>(970)</u>	<u>(972)</u>
	<u>50,958</u>	<u>11,304</u>
		(Adjusted)
Earnings per share attributable to ordinary equity holders of the parent	8	
Basic and diluted (expressed in HK cents)	<u>0.163</u>	<u>0.132</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2018

1. GENERAL

China Ground Source Energy Industry Group Limited (the “Company”) was incorporated in Cayman Islands as an exempted company with limited liability and its shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

The Group was involved in the following principal activities:

- Provision, installation and maintenance of shallow geothermal energy utilisation system
- Trading of air conditioning heat pump products
- Investment in properties for its potential rental income
- Trading of securities and other types of investments

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 GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2017.

The Group has adopted new and amended standards and interpretations of HKFRSs which are mandatory for the accounting periods beginning on or after 1 January 2018 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated first quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

The Group has not applied the new HKFRSs that have been issued but are not yet effective but is in the process of assessing their impact on the results of operation and financial position of the Group.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the period ended 31 March 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the values of services rendered; and gross rental income received and receivable from investment properties during the period.

An analysis of revenue, other income and gains is as follows:

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Sales, installation and maintenance of shallow geothermal energy utilisation system	148,683	97,585
Sales of air conditioning heat pump products	–	283
Rental income	8,992	3,739
	157,675	101,607
Other income		
Bank interest income	75	29
Sale of scrap materials	75	–
Government grants	33	–
Others	46	60
	229	89
Gains		
Fair value change on equity investments at fair value through profit or loss	–	6
Gain on disposal of subsidiaries	–	3,245
	–	3,251
	229	3,340

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans, overdraft and other loans	9,919	7,931
Guarantee fee on bank loans	2,480	–
	<u>12,399</u>	<u>7,931</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of sales	97,876	56,021
Depreciation	2,590	2,301
Minimum lease payments under operating leases	1,192	2,168
Employee benefit expense (including directors' and chief executive's remuneration)	23,564	20,555
	<u>23,564</u>	<u>20,555</u>

6. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax	4,637	2,730
	<u>4,637</u>	<u>2,730</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 March 2018 (2017: Nil).

PRC enterprise income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 31 March 2018.

7. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of any dividend for the three months ended 31 March 2018 (2017: nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,026,925,000 (2017: 3,111,715,000 (adjusted) in issue during that year, as adjusted to reflect the rights issue during that year).

The calculation of the basic and diluted earnings per share based on:

	Three months ended	
	31 March	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	<u>6,550</u>	<u>4,099</u>
	'000	'000
		(Adjusted)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>4,026,925</u>	<u>3,111,715</u>

Note: The calculation of diluted earnings per share for the three months ended 31 March 2018 and 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 ended 31 March 2018 and 2017.

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

For the three months ended 31 March 2018

	Attributable to owners of the parent											Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
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 (loss) for the period	-	-	-	-	-	-	-	-	-	4,099	4,099	(1,249)	2,850
Other comprehensive income (loss) for the period:													
Charges in fair value of available-for-sale investments	-	-	-	-	-	-	1	-	-	-	1	-	1
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	8,178	-	8,178	277	8,455
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Share of other comprehensive loss of associates	-	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	1	-	8,176	4,099	12,276	(972)	11,304
Equity – settled share option arrangements	-	-	-	-	-	-	-	2,527	-	-	2,527	-	2,527
Allocation	-	-	355	-	-	-	-	-	-	(355)	-	-	-
At 31 March 2017 (unaudited)	<u>223,990</u>	<u>881,489</u>	<u>3,290</u>	<u>28,086</u>	<u>154,381</u>	<u>2,975</u>	<u>31,812</u>	<u>39,010</u>	<u>(51,244)</u>	<u>96,861</u>	<u>1,410,650</u>	<u>44,483</u>	<u>1,455,133</u>

	Attributable to owners of the parent											Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
At 1 January 2018 (audited)	313,793	903,884	2,935	42,998	154,381	2,975	32,812	46,029	23,753	103,650	1,627,210	59,820	1,687,030
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	6,550	6,550	(2,372)	4,178
Other comprehensive income (loss) for the period:													
Charges in fair value of available-for-sale investments	-	-	-	-	-	-	2	-	-	-	2	-	2
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	45,394	-	45,394	1,402	46,796
Share of other comprehensive income of a joint venture	-	-	-	-	-	-	-	-	2	-	2	-	2
Share of other comprehensive loss of associates	-	-	-	-	-	-	-	-	(20)	-	(20)	-	(20)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	2	-	45,376	6,550	51,928	(970)	50,958
Equity – settled share option arrangements	-	-	-	-	-	-	-	842	-	-	842	-	842
At 31 March 2018 (unaudited)	<u>313,793</u>	<u>903,884</u>	<u>2,935</u>	<u>42,998</u>	<u>154,381</u>	<u>2,975</u>	<u>32,814</u>	<u>46,871</u>	<u>69,129</u>	<u>110,200</u>	<u>1,679,980</u>	<u>58,850</u>	<u>1,738,830</u>

Notes:

(a) Share Premium

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 GEM 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) Statutory reserve

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

Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior years.

(d) Special reserve

Special reserve represents the reserve arising from acquisition of additional interests.

(e) Capital reserve

Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior years.

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

As at 31 March 2018, 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 (<i>Note 1</i>)	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 (<i>Note 2</i>)	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 (<i>Note 3</i>)	Beneficial owner	716,800 (L)		0.02%	30,314,851 (L)	31,031,651 (L)	0.77%
Mr. Jia Wenzeng (<i>Note 4</i>)	Beneficial owner	–		–	4,827,920 (L)	4,827,920 (L)	0.12%
Mr. Wu Deheng (<i>Note 5</i>)	Beneficial owner	–		–	3,143,762 (L)	3,143,762 (L)	0.08%

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

Notes:

1. 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 31 March 2018, 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	Exercise price per share HK\$	Number of share options outstanding as at 31 March 2018
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.379	13,024,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.379	19,087,129
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.379	1,871,288
		9 September 2012 to 8 September 2020	0.379	1,871,288
		9 September 2013 to 8 September 2020	0.379	1,871,285
	8 December 2016	8 December 2016 to 31 December 2020	0.267	24,700,990
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.379	1,684,158
	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762
Mr. Wu Desheng	8 December 2016	8 December 2016 to 31 December 2020	0.267	3,143,762

Save as disclosed above, as at 31 March 2018, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 31 March 2018, 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 31 March 2018, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 31 March 2018, 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 31 March 2018 were as follows:

Date of grant of share options	As at 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 March 2018	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	56,574,249	-	-	-	56,574,249	-	9 September 2010 to 8 September 2020	0.379
9 September 2010	35,554,456	-	-	-	35,554,456	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
9 September 2010	35,554,456	-	-	-	35,554,456	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
9 September 2010	35,554,455	-	-	-	35,554,455	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
8 December 2016	80,390,495	-	-	-	80,390,495	-	8 December 2016 to 31 December 2020	0.267
8 December 2016	121,277,370	-	-	-	121,277,370	8 December 2016 to 7 December 2017	8 December 2017 to 31 December 2020	0.267
8 December 2016	121,277,370	-	-	-	121,277,370	8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	0.267
	<u>486,182,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486,182,851</u>			

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors of the Company.

The audit committee currently comprises four independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui. 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, 14 May 2018

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.