中國地熱能產業發展集團有限公司
CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

FINAL RESULT ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF THE 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.

This announcement, for which the directors of the China Geothermal Industry Development 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 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.

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 Geothermal Industry Development Group Limited at www.cgsenergy.com.hk.

FINAL RESULTS

The board of directors ("Directors") of China Geothermal Industry Development Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
REVENUE	*4*	**396,793**	778,153
Cost of sales		**(366,994)**	(614,244)
Gross profit		**29,799**	163,909
Other income and gains	*4*	**10,210**	37,777
Selling and distribution expenses		**(26,277)**	(23,302)
Administrative expenses		**(112,326)**	(115,669)
Impairment losses on trade and bills receivables, net		**(16,084)**	–
Impairment losses on prepayments, deposits and other receivables, net		**(5,521)**	–
Impairment losses on contract assets, net		**(50,966)**	–
Finance costs	*5*	**(46,590)**	(48,568)
Fair value changes on investment properties		**11,204**	25,900
Other expenses		**(203,140)**	(17,227)
Share of profits and losses of:			
A joint venture		**458**	276
Associates		**(6,746)**	2,473
Share-based payment expenses		**(3,088)**	(9,546)
(LOSS)/PROFIT BEFORE TAX	*6*	**(419,067)**	16,023
Income tax credit/(expense)	*7*	**556**	(12,061)
(LOSS)/PROFIT FOR THE YEAR		**(418,511)**	3,962
Attributable to:			
Owners of the parent		**(410,297)**	10,533
Non-controlling interests		**(8,214)**	(6,571)
		(418,511)	3,962
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted (expressed in HK$ cents)		**(10.19)**	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE YEAR	**(418,511)**	3,962
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	(5,188)
Reclassification adjustment for losses included in the consolidated statement of profit or loss		
– impairment loss	**–**	6,189
	–	1,001
Exchange differences:		
Exchange differences on translation of foreign operations	**(49,317)**	86,610
Share of other comprehensive (loss)/income of a joint venture	**(389)**	536
Share of other comprehensive (loss)/income of associates	**(801)**	1,542
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(50,507)**	89,689
Other comprehensive (loss)/income that will not to be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	**5,360**	14,912
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(19,209)**	–
Income tax effect	**4,823**	–
	(14,386)	–
Net other comprehensive (loss)/income that will not to be reclassified to profit or loss in subsequent periods	**(9,026)**	14,912
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(59,533)**	104,601
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(478,044)**	108,563
Attributable to:		
Owners of the parent	**(468,646)**	109,619
Non-controlling interests	**(9,398)**	(1,056)
	(478,044)	108,563

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**318,590**	349,935
Investment properties		**663,958**	601,607
Deposits paid for acquisitions of land use rights		**100,566**	105,802
Goodwill		**263,879**	465,760
Investment in a joint venture		**7,647**	7,578
Investments in associates		**49,824**	40,594
Equity investments designated at fair value through other comprehensive income		**238,974**	–
Available-for-sale investments		**–**	99,932
Deferred tax assets		**41,529**	30,324
Long-term prepayments		**933**	176,631
Contract assets		**18,825**	–
Trade receivables	*10*	**65,736**	96,408
Total non-current assets		**1,770,461**	1,974,571
CURRENT ASSETS			
Inventories		**56,880**	40,950
Properties held for sale		**90,780**	95,507
Trade and bills receivables	*10*	**78,773**	103,310
Prepayments, deposits and other receivables		**169,167**	245,687
Contract assets		**251,935**	–
Amounts due from customers for contract work		**–**	514,962
Amount due from a joint venture		**745**	202
Financial assets at fair value through profit or loss		**209**	3,072
Time deposits		**231**	–
Pledged deposits		**1,549**	–
Cash and cash equivalents		**72,934**	122,004
Total current assets		**723,203**	1,125,694
CURRENT LIABILITIES			
Trade and bills payables	*11*	**473,641**	381,705
Other payables and accruals		**138,417**	162,525
Contract liabilities		**56,510**	–
Amounts due to customers for contract work		**–**	12,290
Amounts due to associates		**8,779**	18,644
Amounts due to related companies		**25,445**	11,203
Interest-bearing bank borrowings		**456,517**	89,693
Tax payable		**154,175**	161,075
Total current liabilities		**1,313,484**	837,135
NET CURRENT (LIABILITIES)/ASSETS		**(590,281)**	288,559
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,180,180**	2,263,130

	2018	2017
	HK$'000	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,180,180**	2,263,130
NON-CURRENT LIABILITIES		
Other payables and accruals	**10,472**	9,547
Interest-bearing bank borrowings	**–**	480,286
Deferred income	**10,021**	10,542
Deferred tax liabilities	**74,825**	75,725
Total non-current liabilities	**95,318**	576,100
Net assets	**1,084,862**	1,687,030
EQUITY		
Equity attributable to owners of the parent		
Share capital	**313,793**	313,793
Reserves	**737,601**	1,313,417
	1,051,394	1,627,210
Non-controlling interests	**33,468**	59,820
Total equity	**1,084,862**	1,687,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION

China Geothermal Industry Development Group Limited was incorporated in the 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 of the Company are disclosed in the "Corporate Information" section to the annual report.

During the year, 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 their potential rental income
- Trading of securities and other types of investments

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the "HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, leasehold land and buildings classified as property, plant and equipment, and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2018, the Group incurred a consolidated net loss of HK$418,511,000 and had a consolidated accumulated losses of HK$412,514,000. As at 31 December 2018, the Group had net current liabilities of HK$590,281,000.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

- On 7 March 2019, the Company entered into the financial services agreement with China Energy Finance Company Limited ("Finance Company"), whereby Finance Company agreed to provide the deposit services, the settlement services, the loan and guarantee services and the other financial services to the Group for the period from 7 March 2019 to 31 December 2021. Finance Company would provide the loan and guarantee services to the member(s) of the Group in an aggregate amount of RMB1,000,000,000;

- In December 2017, the Company invested RMB143 million in an insurance company. This equity investment shall not be disposed by the Company within one year since the establishment of the insurance company before 28 February 2019. The fair value of this equity investment was HK$180,324,000 as at 31 December 2018.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2018 on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount *HK$'000*	Re-classification *HK$'000*	ELC *HK$'000*	Other *HK$'000*	Amount *HK$'000*	Category
Financial assets								
Cash and cash equivalents		L&R[3]	122,004	–	–	–	122,004	AC[4]
Trade and bills receivables	*(ii)*	L&R	150,650	–	(10,897)	–	139,753	AC
Financial assets included in prepayments, deposits and other receivables		L&R	180,720	–	(3,374)	–	177,346	AC
Amount due from a joint venture		L&R	202	–	–	–	202	AC
Equity investments designated at fair value through other comprehensive income		N/A	–	99,932	–	–	99,932	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*			99,932	–	–		
Available-for-sale investments		AFS[2]	99,932	(99,932)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*			(99,932)	–	–		
Financial assets at fair value through profit or loss		FVPL[5]	3,072	–	–	–	3,072	FVPL (mandatory)
			556,580	–	(14,271)	–	542,309	
Other assets								
Contract assets	*(ii)*		564,030	–	(117,674)	–	446,356	
Deferred tax assets			30,324	–	3,057	1,676	35,057	
			594,354	–	(114,617)	1,676	481,413	
Financial liabilities								
Trade and bills payables		AC	381,705	–	–	–	381,705	AC
Financial liabilities included in other payables and accruals		AC	135,270	–	–	–	135,270	AC
Amounts due to associates		AC	18,644	–	–	–	18,644	AC
Amounts due to related companies		AC	11,203	–	–	–	11,203	AC
Interest-bearing bank borrowings		AC	569,979	–	–	–	569,979	AC
			1,116,801	–	–	–	1,116,801	
Other liabilities								
Contract liabilities	*(ii)*		34,936	–	–	–	34,936	
Deferrred tax liabilities			75,725	–	–	–	75,725	
			110,661	–	–	–	110,661	

[1] FVOCI: Financial assets at fair value through other comprehensive income

[2] AFS: Available-for-sale investments

[3] L&R: Loans and receivables

[4] AC: Financial assets or financial liabilities at amortised cost

[5] FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The gross carrying amounts of the trade and bills receivables, the contract assets and the contract liabilities under the column "HKAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c).

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 22, 24 and 25 to the financial statements of the annual report of the Company.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills receivables	74,155	10,897	85,052
Contract assets	225,627	117,674	343,301
Financial assets included in prepayments, deposits and other receivables	5,009	3,374	8,383
	304,791	131,945	436,736

Impact on reserves and retained profits/(accumulated losses)

The impact of transition to HKFRS 9 on reserves and retained profits/(accumulated losses) is as follows:

	Reserves and retained profits/ (accumulated losses)
	HK$'000
Capital reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	32,812
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	(6,653)
Deferred tax in relation to the above	1,676
Balance as at 1 January 2018 under HKFRS 9	27,835
Retained profits/(Accumulated losses) and non-controlling interests	
Balance as at 31 December 2017 under HKAS 39	163,470
Recognition of expected credit losses for contract assets under HKFRS 9	(117,674)
Recognition of expected credit losses for trade receivables under HKFRS 9	(10,897)
Recognition of expected credit losses for financial assets included in prepayments, deposits and other receivables under HKFRS 9	(3,374)
Deferred tax in relation to the above	3,057
Reversal of impairment losses under HKAS 39 for equity investments designated at fair value through other comprehensive income previously classified as available-for-sale investments	6,653
Balance as at 1 January 2018 under HKFRS 9	41,235

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements of the annual report. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements of the annual report of the Company.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

No transitional adjustment was recognised to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group's principal activities consist of sale, installation and maintenance of shallow geothermal energy utilisation system and sale of air conditioning heat pump products. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(i) Sale, installation and maintenance of shallow geothermal energy utilisation system

The Group concludes that sale, installation and maintenance of shallow geothermal energy utilisation system satisfies the performance obligation over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group recognises revenue using input methods to measure the process towards complete satisfaction of a performance obligation. Therefore, the adoption of HKFRS 15 does not have material impact on the Group's financial statements.

(ii) Sale of air conditioning heat pump products

The Group determines the revenue from such products is recognised at a point in time when a customer obtains control of a promised asset and the Group satisfies a performance, which is consistent with previous revenue recognition policy. Therefore, the adoption of HKFRS 15 does not have material impact on the Group's financial statements.

(iii) Presentation and disclosure

As required by HKFRS 15, the Group disaggregates revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also discloses information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

Assets	*Notes*	**Increase/ (decrease)**
Amounts due from customers for contract work	*(i)*	(514,962)
Contract assets	*(i)*	564,030
Trade and bills receivables	*(i)*	(49,068)
		–

Liabilities	*Notes*	**Increase/ (decrease)**
Amounts due to customers for contract work	*(i)*	(12,290)
Contract liabilities	*(i),(ii)*	34,936
Other payables and accruals	*(ii)*	(22,646)
		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		HKFRS 15	**HKFRS**	**(decrease)**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from customers for contract work	*(i)*	–	218,480	(218,480)
Contract assets	*(i)*	270,760	–	270,760
Trade and bills receivables	*(i)*	144,509	196,789	(52,280)
Total assets		2,493,664	2,493,664	–
Other payables and accruals	*(ii)*	148,889	169,252	(20,363)
Amounts due to customers for contract work	*(i)*	–	36,147	(36,147)
Contract liabilities	*(i),(ii)*	56,510	–	56,510
Total liabilities		1,408,802	1,408,802	–
Net assets		1,084,862	1,084,862	–
Accumulated losses	*(i),(ii)*	(412,514)	(412,514)	–
Non-controlling interests	*(i),(ii)*	33,468	33,468	–
Total equity		1,084,862	1,084,862	–

(i) Sale, installation and maintenance of shallow geothermal energy utilisation system

Before the adoption of HKFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as amounts due from customers for contract work in the statement of financial position before the construction services were billed to customers; billing in excess of costs were recognised as amounts due to customers for contract work in the statement of financial position. Upon the adoption of HKFRS 15, a contract asset or a contract liability is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK$514,962,000 from amounts due from customers for contract work to contract assets and HK$12,290,000 from amounts due to customers for contract work to contract liabilities as at 1 January 2018.

Before the adoption of HKFRS 15, retention receivables arising from construction contracts, that were conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts, were included in trade and bills receivables. Upon adoption of HKFRS 15, retention receivables are reclassified to contract assets. Accordingly, the Group reclassified HK$49,068,000 from trade and bills receivables to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in trade and bills receivables of HK$52,280,000, a decrease in amounts due from customers for contract work and amounts due to customers for contract work of HK$218,480,000 and HK$36,147,000, respectively and an increase in contract assets and contract liabilities of HK$270,760,000 and HK$56,510,000, respectively.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$22,646,000 from other payables and accruals to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$20,363,000 was reclassified from other payables and accruals to contract liabilities in relation to the consideration received from customers in advance for the sale of air conditioning heat pump products and the sale, installation and maintenance of shallow geothermal energy utilisation system.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Shallow geothermal energy segment – provision, installation and maintenance of shallow geothermal energy utilisation system;

(b) Air conditioning heat pump segment – trading of air conditioning heat pump products;

(c) Property investment and development segment – investments in properties for their potential rental income; and

(d) Securities investment and trading segment – trading of securities and other types of investment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that share of profits and losses of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and finance costs are excluded from such measurement.

Segment assets exclude certain other receivables, investments in associates and a joint venture, deferred tax assets, amount due from a joint venture, time deposits, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude certain other payables and accruals, amounts due to associates and related companies, interest-bearing bank borrowings, deferred tax liabilities and tax payable as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2018

	Shallow geothermal energy *HK$'000*	Air conditioning heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Segment revenue *(note 4)*:					
Sales to external customers	**364,842**	**14,439**	**17,512**	**–**	**396,793**
Intersegment sales	**–**	**32,553**	**–**	**–**	**32,553**
	364,842	**46,992**	**17,512**	**–**	**429,346**
Reconciliation:					
Elimination of intersegment sales					**(32,553)**
Revenue					**396,793**
Segment results	**(348,705)**	**1,307**	**19,159**	**4,424**	**(323,815)**
Reconciliation:					
Elimination of intersegment results					**(6,541)**
Share of profits and losses of associates					**(6,746)**
Share of profits and losses of a joint venture					**458**
Unallocated other income					**1,697**
Corporate and other unallocated expenses					**(37,530)**
Finance costs					**(46,590)**
Loss before tax					**(419,067)**
Segment assets	**1,106,222**	**66,158**	**965,746**	**240,347**	**2,378,473**
Reconciliation:					
Elimination of intersegment receivables					**(61,079)**
Corporate and other unallocated assets					**176,270**
Total assets					**2,493,664**
Segment liabilities	**596,411**	**90,317**	**58,529**	**4,883**	**750,140**
Reconciliation:					
Elimination of intersegment payables					**(61,079)**
Corporate and other unallocated liabilities					**719,741**
Total liabilities					**1,408,802**

Year ended 31 December 2018

	Shallow geothermal energy *HK$'000*	Air conditioning heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation	**12,901**	**1,034**	**1,993**	**289**	**16,217**
Impairment loss recognised in respect of trade and bills receivables, net	**15,690**	**1**	**393**	**–**	**16,084**
Impairment loss recognised in respect of prepayments, deposits and other receivables, net	**4,299**	**29**	**1,193**	**–**	**5,521**
Impairment loss recognised in respect of contract assets, net	**50,966**	**–**	**–**	**–**	**50,966**
Changes in fair value of investment properties	**–**	**–**	**(11,204)**	**–**	**(11,204)**
Capital expenditure*	**4,182**	**1,605**	**22,607**	**–**	**28,394**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	**49,824**	**–**	**–**	**–**	**49,824**
Investment in a joint venture	**7,647**	**–**	**–**	**–**	**7,647**
Share of profits and losses of associates	**6,746**	**–**	**–**	**–**	**6,746**
Share of profits and losses of a joint venture	**(458)**	**–**	**–**	**–**	**(458)**
Share-based payment expenses	**3,088**	**–**	**–**	**–**	**3,088**

* Capital expenditure consists of additions to property, plant and equipment and investment properties.

Year ended 31 December 2017

	Shallow geothermal energy *HK$'000*	Air conditioning heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Segment revenue:					
Sales to external customers	740,470	23,906	13,777	–	778,153
Intersegment sales	–	44,028	–	–	44,028
	740,470	67,934	13,777	–	822,181
Reconciliation:					
Elimination of intersegment sales					(44,028)
Revenue					778,153
Segment results	58,790	5,472	39,677	3,099	107,038
Reconciliation:					
Elimination of intersegment results					(5,331)
Share of profits and losses of associates					2,473
Share of profits and losses of a joint venture					276
Unallocated other income					2,252
Corporate and other unallocated expenses					(42,117)
Finance costs					(48,568)
Profit before tax					16,023
Segment assets	1,819,027	92,852	922,962	106,496	2,941,337
Reconciliation:					
Elimination of intersegment receivables					(43,768)
Corporate and other unallocated assets					202,696
Total assets					3,100,265
Segment liabilities	466,209	84,782	46,889	6,758	604,638
Reconciliation:					
Elimination of intersegment payables					(43,768)
Corporate and other unallocated liabilities					852,365
Total liabilities					1,413,235

Year ended 31 December 2017

	Shallow geothermal energy *HK$'000*	Air conditioning heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation	14,208	615	2,517	326	17,666
Impairment loss recognised in respect of trade receivables	10,114	–	436	–	10,550
Reversal of impairment loss in respect of trade receivables	(86)	–	–	–	(86)
Impairment loss recognised in respect of available-for-sale investments	–	–	–	6,653	6,653
Loss on uncertainty in respect of collectability of amounts due from customers of contract work	58,678	–	–	–	58,678
Changes in fair value of investment properties	–	–	(25,900)	–	(25,900)
Capital expenditure	3,488	3,950	40,975	–	48,413
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	40,594	–	–	–	40,594
Investment in a joint venture	7,578	–	–	–	7,578
Share of profits and losses of associates	(2,473)	–	–	–	(2,473)
Share of profits and losses of a joint venture	(276)	–	–	–	(276)
Share-based payment expenses	9,546	–	–	–	9,546

Geographical information

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

Information about major customers

Information about revenue from major customers which individually amounted to 10% or more of Group's revenue is shown in the following table:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**51,507**	–
Customer B	**–**	316,805
Customer C	**83,749**	–
	135,256	316,805
Total revenue	**396,793**	778,153
Proportion of revenue	**34.1%**	40.7%

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers	**379,281**	–
Sales of goods	**–**	23,906
Construction contracts	**–**	740,470
Revenue from other sources		
Gross rental income	**17,512**	13,777
	396,793	778,153

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	**Shallow geothermal energy** *HK$'000*	**Air conditioning heat pump** *HK$'000*	**Total** *HK$'000*
Type of goods or services:			
Sales of goods	–	14,439	14,439
Construction services	364,842	–	364,842
Total revenue from contracts with customers	364,842	14,439	379,281
Geographical markets:			
Mainland China	364,842	14,439	379,281
Timing of revenue recognition:			
Goods transferred at a point in time	–	14,439	14,439
Services transferred over time	364,842	–	364,842
Total revenue from contracts with customers	364,842	14,439	379,281

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	**Shallow geothermal energy** *HK$'000*	**Air conditioning heat pump** *HK$'000*	**Total** *HK$'000*
Revenue from contracts with customers:			
External customers	364,842	14,439	379,281
Intersegment sales	–	32,553	32,553
	364,842	46,992	411,834
Intersegment adjustments and eliminations	–	(32,553)	(32,553)
Total revenue from contracts with customers	364,842	14,439	379,281

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018
	HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Construction services	7,726

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 90 days from delivery. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 is as follows:

	HK$'000
Within one year	290,092

All the performance obligations are expected to be recognised within one year. The amount disclosed above does not include variable consideration which is constrained.

	2018	2017
	HK$'000	*HK$'000*
Other income		
Interest income	**3,914**	782
Sale of scrap materials	**704**	394
Government grants *(Note)*	**995**	1,330
Dividend income from equity investments at fair value through profit or loss	**–**	5
Dividend income from available-for-sale investments	**–**	2,433
Dividend income from equity investments at fair value through other comprehensive income	**4,141**	–
Others	**173**	1,401
	9,927	6,345
Gains		
Fair value change of equity investments at fair value through profit or loss	**283**	661
Gain on disposal of subsidiaries	**–**	24,236
Gain on disposal of items of property, plant and equipment	**–**	6,535
	283	31,432
	10,210	37,777

Note: Government grants have been received in respect of certain heating projects of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**37,124**	37,365
Guarantee fee on bank loans	**9,466**	11,203
	46,590	48,568

6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**14,095**	23,765
Cost of services provided		**352,899**	531,801
Depreciation		**16,217**	17,666
Research and development costs		**10,054**	13,998
Impairment of goodwill*		**201,881**	–
Minimum lease payments under operating leases		**9,702**	7,773
Auditor's remuneration		**3,431**	3,128
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		**68,382**	57,801
Equity-settled share option expense		**3,088**	9,546
Pension scheme contributions		**9,417**	8,546
		80,887	75,893
Impairment loss recognised in respect of trade and bills receivables, net	*10*	**16,084**	10,464
Impairment loss recognised in respect of prepayments, deposits and other receivables, net		**5,521**	–
Loss on uncertainty in respect of collectability of contract assets/amounts due from customers for contract work, net		**50,966**	58,678
Impairment loss recognised in respect of available-for-sale investments*		**–**	6,653
Changes in fair value of investment properties		**(11,204)**	(25,900)
Fair value change on equity investments at fair value through profit or loss		**(283)**	(661)
Loss on disposal of available-for-sale investments*		**–**	463
Dividend income from available-for-sale investments		**–**	(2,433)
Dividend income from equity investments at fair value through other comprehensive income		**(4,141)**	–
Dividend income from equity investments at fair value through profit or loss		**–**	(5)
Interest income		**(3,914)**	(782)
Loss/(gain) on disposal of items of property, plant and equipment		**536**	(6,535)
Gain on disposal of subsidiaries		**–**	(24,236)

* Impairment loss recognised in respect of available-for-sale investments and goodwill and loss on disposal of available-for-sale investments are included in "Other expenses" in the consolidated statement of profit or loss.

7. INCOME TAX (CREDIT)/EXPENSE

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 subsidiaries were recognised as high and new technology enterprises and the income tax rate applicable to these subsidiaries was 15% for the year ended 31 December 2018 (2017: 15%).

	2018	2017
	HK$'000	*HK$'000*
Current – Mainland China	**–**	7,546
Deferred	**(556)**	4,515
Total tax (credit)/charge for the year	**(556)**	12,061

8. DIVIDENDS

During the years ended 31 December 2018 and 2017, no final dividend was 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 2018 has been proposed by the directors of the Company.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,026,925,000 (2017: 3,530,455,000) in issue during the year.

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 the Company's shares for the year ended 31 December 2018.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2018	2017
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	**(410,297)**	10,533

	Number of shares	
	2018	2017
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**4,026,925**	3,530,455

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**240,047**	224,805
Impairment	**(96,356)**	(74,155)
Trade receivables, net	**143,691**	150,650
Retention receivables	**–**	49,068
Bills receivable	**818**	–
	144,509	199,718
Less: Non-current portion	**(65,736)**	(96,408)
Current portion	**78,773**	103,310

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 90 days	**33,262**	77,201
91 to 180 days	**3,181**	16,739
181 to 365 days	**28,536**	16,289
Over 365 days	**79,530**	89,489
	144,509	199,718

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018	2017
	HK$'000	*HK$'000*
At beginning of year	**74,155**	59,646
Effect of adoption of HKFRS 9	**10,897**	–
At beginning of year (restated)	**85,052**	59,646
Impairment losses, net *(note 6)*	**16,084**	10,464
Exchange realignment	**(4,780)**	4,045
At end of year	**96,356**	74,155

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on the grouping of various customer segments.

As at 31 December 2018

The group one: construction services

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Expected credit loss rate	12.81%	46.90%	69.14%	75.76%	76.04%	100%	41.20%
Gross carrying amount *(HK$'000)*	134,495	21,808	7,992	6,134	7,286	51,114	228,829
Expected credit losses *(HK$'000)*	17,229	10,228	5,526	4,647	5,540	51,114	94,284

The group two: others

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Expected credit loss rate	2.88%	32.76%	68.10%	100%	100%	100%	18.47%
Gross carrying amount *(HK$'000)*	6,694	3,843	192	32	133	324	11,218
Expected credit losses *(HK$'000)*	193	1,259	131	32	133	324	2,072

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for trade receivables with a carrying amount before provision of HK$74,155,000. No individually provision for impairment of trade receivables was included in the above table at 31 December 2017.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	158,905
Less than one year past due	33,028
Over one year past due	7,785
	199,718

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

11. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Within 90 days	**168,719**	161,420
91 to 180 days	**38,844**	33,137
181 to 365 days	**76,214**	27,340
Over 365 days	**189,864**	159,808
	473,641	381,705

The trade and bills payables are non-interest-bearing and are normally settled in six months.

FINANCIAL HIGHLIGHTS

Income Allocation

	2018 HK$'000	%	2017 HK$'000	%
1. Shallow geothermal energy utilisation system				
Including: Planning and Design	**6,267**	**2**	4,453	1
Supply of renewable energy	**49,509**	**12**	73,886	9
Engineering construction	**271,773**	**68**	648,608	83
Operation and maintenance	**21,791**	**5**	13,523	2
Intelligent manufacturing	**15,502**	**4**	–	–
2. Air conditioning heat pump	**14,439**	**4**	23,906	3
3. Properties investment and development	**17,512**	**5**	13,777	2
Total revenue	**396,793**	**100**	778,153	100

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Revenue	**396,793**	778,153
Gross profit	**29,799**	163,909
(Loss)/profit before tax	**(419,067)**	16,023
(Loss)/profit for the year	**(418,511)**	3,962
Research and development costs (included in the administrative expenses)	**10,054**	13,998
Impairment losses on trade and bills receivables, net	**16,084**	10,464
Impairment losses on contract assets/amounts due from customers for contract work, net	**50,966**	58,678
Impairment on goodwill (one-off in 2018)	**201,881**	–

As at 31 December 2018

	2018 HK$'000	2017 HK$'000
Current assets	**723,203**	1,125,694
Total assets	**2,493,664**	3,100,265
Net current (liabilities)/assets	**(590,281)**	288,559
Total equity	**1,084,862**	1,687,030

FINANCIAL REVIEW

For the year ended 31 December 2018, the loss of the Group amounted to approximately HK$418,511,000 and revenue amounted to HK$396,793,000 as compared with the profit of the Group amounted to HK$3,962,000 and revenue amounted to approximately HK$778,153,000 for the year ended 31 December 2017. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2018 and 2017.

OPERATIONAL RESULTS

Total revenue from operations for the year ended 31 December 2018 was approximately HK$396,793,000 as compared with HK$778,153,000 for the year ended 31 December 2017, representing a decrease of 49.0%. The decrease in revenue was mainly attributable to: (i) affected by the market, many of the contracts originally under negotiation were not realized; and (ii) affected by the slowdown in construction sector resulting delay on our construction progress of the project. The construction progress of the main building was delayed, thereby some of the Company's contract projects were postponed. Hence, the revenue declined during the year, During the year ended 31 December 2018, the Group recorded a net loss of approximately HK$418,511,000 (including an impairment on goodwill and contract assets amounted to approximately HK$201,881,000 and HK$50,966,000 respectively) compared with a net profit of approximately HK$3,962,000 for the year ended 31 December 2017.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2018 was approximately HK$29,799,000, represented the gross profit margin of 7.5% (2017: approximately HK$163,909,000 represented the gross profit margin of 21.1%). The Group's gross profit margin had decreased by 13.6%. The decrease in gross profit margin of the Group was mainly due to the fact that since the fourth quarter of the year, the Group has invested in a number of demonstration projects in the Zhangjiakou area, Handan area, Tianjin Baodi and the Changzi County of Shanxi Province for the development of new markets. The Group's gross profit margin decreased during the year.

SELLING & DISTRIBUTION EXPENSES

Selling and distribution expenses for this year increased by approximately HK$2,975,000, or 12.8% as compared with that of the year ended 31 December 2017. The selling and distribution expenses increased mainly due to the fact that the increase of temporary employees for the marketing and promoting the Group's projects in this year. In addition, domestic wage standards was also increased during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to approximately HK$112,326,000 (decreased by 2.9%) and HK$115,669,000 for the years ended 31 December 2018 and 2017 respectively. The decrease in administrative expenses was mainly due to effective cost control by the Group. These included the decrease in research and development costs by HK$3,944,000.

SHARE-BASED PAYMENT EXPENSES

During the year ended 31 December 2018, the Group incurred share-based payment expenses of approximately HK$3,088,000 (2017: approximately HK$9,546,000) 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.

ORDER BOOK

As at 31 December 2018, the Group had contracts on hand of approximately HK$290,092,000 (2017: approximately HK$439,685,000).

SEGMENTAL INFORMATION

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

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating supply chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning heat pump

The Group continued its air conditioning heat pump business this year and has expanded nearly 2,000 devices in the district of Shunyi and Huairou in Beijing and Qingxu in Shanxi. In the future, the Group will continue to develop such products and enrich the product line constantly to meet the individual needs of the customers.

Properties investment and development

The Group has expanded its business to the self-built demonstration projects in Beijing, Dalian, Pizhou and Mianyang for promotion of the application of shallow geothermal 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 geothermal energy as alternative green energy.

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. Further information regarding the Group's operating segments may be referred to note 3 "Operating Segment Information" of this announcement.

FINANCIAL RESOURCES AND LIQUIDITY

Net current liabilities of the Group as at 31 December 2018 was approximately HK$590,281,000 (2017: net current assets of approximately HK$288,559,000). The Group obtained a specific loan facility of approximately RMB179,500,000 (equivalent to approximately HK$215,529,000) from Beijing Bank's coal-to-electricity specific borrowings during 2017. The loan bore interest at approximately 6% per annum and was fully repaid in August 2018 according to the loan agreement.

In 2016, the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK$456,517,000) from 中節能華禹基金管理有限公司, a related party connected to the Group, through Huishang Bank. The loan bears interest at 7% per annum and is repayable in 2019 according to the entrusted loan agreement. Hence, the balance was reclassified to current liabilities accordingly.

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$72,934,000 (2017: approximately HK$122,004,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

- On 7 March 2019, the Company entered into the financial services agreement with China Energy Finance Company Limited ("Finance Company"), whereby Finance Company agreed to provide the deposit services, the settlement services, the loan and guarantee services and the other financial services to the Group for the period from 7 March 2019 to 31 December 2021. The Finance Company would provide the loan and guarantee services to the member(s) of the Group in an aggregate amount of RMB1,000,000,000;

- In December 2017, the Company invested RMB143 million in an insurance company. This equity investment shall not be disposed by the Company within one year since the establishment of the insurance company before 28 February 2019. The fair value of this equity investment was HK$180,324,000 as at 31 December 2018.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2018 on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

CHARGES OF GROUP ASSETS

As at 31 December 2018, a pledged bank deposit amounted to HK$1,549,000 was pledged for a shallow geothermal energy contract (2017: 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 2018, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total net debt (including interest-bearing bank borrowings, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was 49% as at 31 December 2018 (2017: 37%). The gearing ratio was increased due to the fact that the Group recognised certain impairment loss in respect of trade and bills receivables, contract assets and goodwill. This led to the decrease in the equity attributable to owners of the parent and hence the increase in the gearing ratio.

EMPLOYEES

As at 31 December 2018, the Group has approximately 650 employees (2017: approximately 660). 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 SCHEME

The Company has a share option scheme 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 36 to the consolidated financial statements of the Company's annual report.

At 31 December 2018 and 2017, the number of shares options had been granted and remained outstanding under the Share Option Scheme 2010 was 486,182,851, (representing approximately 12.07% of the shares of the Company).

CONTINGENT LIABILITIES

As at 31 December 2018, 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 final dividend for the year ended 31 December 2018 (2017: Nil).

CAPITAL STRUCTURE

As at 31 December 2018, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,026,925,163 ordinary shares of US$0.01 each.

CAPITAL COMMITMENT AND SUBSTANTIAL INVESTMENTS

Details of capital commitments are set out in note 42 to the consolidated financial statements of the Company's Annual Report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

The Group expects that it will make significant capital expenditures on some of the build-operate-transfer ("BOT") business. BOT business is currently the most common heating business model in the PRC. The Group will promote this model in order to develop heating projects.

MAJOR ACQUISITIONS AND DISPOSALS

There was no major acquisitions or disposal transactions during the year.

BUSINESS REVIEW

The Group has always been focusing on research, exploration and development of shallow geothermal energy as alternative energy for building heating based on its original patented technology of "Single-well circulation geothermal energy collection technology" and the development of integrated heating and cooling with shallow geothermal energy emerging industry. We have strived to develop as an integrated heating and cooling with renewable shallow geothermal energy operation entity which integrates scientific research and development, design consultation, equipment manufacturing, engineering installation, operation and maintenance. With its positioning as a "smart heating/cooling system service provider", we have formed five major segments, namely intelligent heating (cooling) system engineering construction, renewable energy supply (shallow geothermal energy), intelligent manufacturing (heating heat pump), planning and design, operation and maintenance of intelligent heating (cooling) system so as to enhance the capability for the development of entire industry chain.

Under the opportunities and challenges of rapid development and based on the market orientation for the development of various main business segments and responded to the new form of large-scale promotion, the Group has commenced the work of management transformation and adjustment of business model in 2019. The management transformation of the Company carried out in 2019 will be focusing on budget, assessment and disclosure: Firstly, the improvement of social recognition about the renewable shallow geothermal energy is an alternative energy for heating and is also an energy-saving technology for cooling; Secondly, it is an assurance for design and reasonable quality construction and a guarantee for the operation of the integrated heating and cooling. Thirdly, it is to strengthen the formulation and implementation of enterprise standards and to enhance the implementation capability. Fourthly, it is to improve the assessment and incentive policies as well as its transparency so as to ensure fairness.

The Group adjusted its organizational structure in terms of the composition of the Company's business divisions, continuously strengthened the management transformation, and accelerated regional cooperation, including establishing a product channel network combining direct sales and agency, and improving the price system for agents based on the sales level so as to strengthen the Group's sales and market development ability. At present, the Group has completed the establishment of relevant business divisions and a replicated and open business unit mechanism. The Company will focus on speeding up the scale to realize the development of shallow geothermal heating projects integrating investment, construction and operation. Improving the Company's operational and budget execution capabilities in order to enhance the Company's performance and ensure profitability for the year.

In 2018, the Company completed some major shallow geothermal energy heating projects including the construction of energy station of Citizen Service Center of Xiong'an New District, the Capital New Airport, the Yanqing Old County Village Coal-to-electricity project, the Shijingshan Insurance Industrial Park Phase II and the Yanqing Campus of Foreign Language School. Amongst of them, the construction of a 8,000KW distributed geothermal energy heating and cooling station which is a comprehensive energy application project of the Citizen Service Center of Xiong'an New District. Being the first large-scale comprehensive project in the high-profile Xiong'an New District as led by the China Energy Conservation and Environmental Protection Group and Ever Source Science and Technology Development Group Co., Ltd. ("HYY") carried out the construction has highlighted China's original single-well circulation heat exchange geothermal energy collection technology which will play a demonstration role in the commencement of large-scale construction of the Xiong'an New District this year.

Recently, the Group has invested in a number of demonstration projects in the Zhangjiakou area, Handan area, Tianjin Baoding area and the Changzi County of Shanxi Province for the development of new markets which has achieved good demonstration effect.

In the first half of 2018, HYY completed the construction of the heating heat pump production R&D base in Haidian District, Beijing which improved the research and development capabilities of the Group's heat pump products for heating and cooling and strengthened the production capacity of the Company's products. It has created favorable conditions for the Company to participate in major projects in the future and laid a solid foundation for promoting the Company's products in Beijing-Tianjin-Hebei and northern heating areas.

In this year, HYY and Beijing Digital Dafang Technology Co., Ltd. jointly built the "HYY Cloud Platform", the first online platform for shallow geothermal heating in China, which has been publicly released for its operation. The platform combined the new information technology of industrial software, cloud computing, big data, mobile Internet, Internet of Things with the field of geothermal energy has provided an open support services for the design, budget, procurement, construction, operation and maintenance of the project, and will obtain relevant income.

Major risks of operation

- It is expected that the market of promotion and application of shallow geothermal energy will expand while the competition will be further intensified. We must strengthen the cost control of the project and improve the project management capability and enhance the assessment, thus offsetting the impact on the business gross profit margin. We have established a bidding and contracting mechanism for the engineering department so as to accurately calculate the cost by category, and further reducing costs and increasing profits during the implementation process.

- The projects undertaken by the Group recorded a large amount of accounts receivable which affects the liquidity of the Company. It is proposed to set up a special unit to supervise the recovery of receivables so as to increase the cash flow for the Company.

- With the adjustment of the business model, the proportion of investment, construction and operation integration projects has increased, and its initial investment is relatively high, which has created pressure on the Company's funds, which also hinders the Company's ability to develop. The Company needs to strengthen the working capital to support the project development, therefore, we will actively enhance the recoverability of payment of project and consider making appropriate financing to maintain the Company's operational capabilities.

Business outlook

The total area of architectural heating in the severe cold and cold northern parts of China is about 20,600,000,000m² (of which 14,100,000,000m² for cities and towns, and 6,500,000,000m² for the rural areas), and the coal fired heating area is 17,100,000,000m², accounting for about 83% of total heating area in the northern region. The annual heating coal consumption is about 400,000,000t standard coal, accounting for about 10% of total energy consumption of current year nationwide. If the shallow geothermal energy is utilized as the heating alternative energy for the northern region, more than 3 trillion huge potential markets will exist, including more than 1 trillion for rural markets. With the improvement of living standard, the hot-summer and cold-winter regions along the banks of the Yangtze River need both heating and cooling presently. Therefore, it is clear that the heating and cooling integrated industry has huge market potential in the new era.

On 3rd March of this year, "the Chinese Expert Panel has basically ascertained the causes for heavy atmospheric pollution in Beijing-Tianjin-Hebei Region currently; in terms of time, due to the influence of heating, the monthly average emission level of fine particles (PM2.5) and organic carbon, black carbon and other components in autumn and winter is 1.5-4 times of that in the non-heating season; the emission level of the abovementioned pollutants in autumn and winter is higher in Baoding and other cities which consume much bulk coal" was published. Utilizing of clean energy to replace the bulk coal has become the top priority in controlling air pollution. The president Xi Jinping presided over the 14th meeting of the Central Financial Leadership Group on 21 December 2016 emphasized that "the promotion of clean heating in winters of Northern China is an important chapter of the revolution in energy generation and consumption, and the revolution of living style of rural livelihood. In January 2018, the six ministries issued the "Notification on Accelerating the Development and Utilization of Shallow Geothermal Energy to Promote the Reduction and Replacement of Coal in the Northern Heating Area". Driven by the introduction of different national planning and policies as well as the national energy development strategy, the potential for the development of shallow geothermal energy industry is huge.

At present, the Ministry of Environmental Protection has stopped the rural "coal-to-gas" project, and the electric heating method has also made the heating costs for rural users too high. Shallow geothermal energy as an alternative energy for heating in the north with its characteristics of huge in reserve, clean and renewable is outstanding. The theory and practice have proved that shallow geothermal energy is preferred as an alternative energy for northern heating. Provision of heating for buildings with no combustion, zero emissions in the heating region is an effective way to control the smog caused by heating. The cost of power and electricity consumption of heating with shallow geothermal heating is one quarter of that of the electric heating and the operating cost is lower than that of burning coal.

It is expected that the shallow geothermal energy industry will enter the golden development period. We will combine the demand and applicability of geothermal energy heating in various regions, focusing on two poles (Beijing-Tianjin-Hebei region, Xiong'an New District construction) and the overall layout of "three-lines (surrounding regions of high-speed rail, highway and airport), one-Yangtze River and the upstream of Yellow River" vigorously develop the emerging industry of combustion-free integrated heating and cooling with shallow geothermal energy, and actively explore the market. Under the adjustments of the new management transformation for the budget, assessment and disclosure and the business model as well as relying on the management, technology and experience accumulated in the utilization and development of the shallow geothermal energy for 20 years, the shallow geothermal heating and cooling business model being simple replicated will lead the Company enter into another new milestone.

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 year, the Company has complied with the Code except for the deviations which are explained as follows:–

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.

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 his 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 14 May 2018.

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 consolidated results for the year ended 31 December 2018 and has provided advice and comments thereon. The Audit Committee held five meetings during the year.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young 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 the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young 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 year, 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board of
China Geothermal Industry Development Group Limited
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 26 March 2019

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