



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

TECHNOLOGY AND RESOURCES LINKS

Third Quarterly Report 2018



高效電替煤集中供暖機房



農村自採暖地能熱質系統應用外景





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This report, for which the directors of 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.





HIGHLIGHTS

Revenue for the nine months ended 30 September 2018 (the “Review Period”) amounted to approximately HK\$392,278,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,551,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Geothermal Industry Development Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and the nine months ended 30 September 2017.

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow geothermal energy	95,947	233,148	361,370	468,052
– Air conditioning heat pump	14,047	–	14,114	–
– Properties investment and development	3,762	3,974	16,794	11,530
	113,756	237,122	392,278	479,582
(Loss)/Profit for the period	(1,110)	(762)	2,551	1,846
Profit attributable to owners of the parent	4,663	896	13,434	6,956





During the Review Period, the Group's revenue amounted to approximately HK\$361,370,000 which was contributed by shallow geothermal energy business as compared with that of approximately HK\$468,052,000 for the corresponding period last year. The revenue decreased by approximately HK\$106,682,000 as compared with that of corresponding period last year. The revenue of the shallow geothermal energy business decreased during the Review Period due to the fact that the domestic economy continued to slow down, the construction of new buildings decreased, and the general public delayed consumption. During the period, the Group's contracts were significantly reduced. Therefore, revenue has decreased during this Review Period. The Group's gross profit margin increased slightly from 26.7% in last corresponding period to 29.4% in the current period. During the nine months ended 30 September 2017, loss on uncertainty in respect of collectability of contract assets amounted to HK\$18,612,000 which was included in the cost of sales. This made the gross profit margin lower in the last corresponding period.

Other income and gains decreased from approximately HK\$3,772,000 in the corresponding period last year to approximately HK\$2,346,000 for the nine months ended 30 September 2018. The other income and gain decreased during the Review Period, this was mainly attributable to the one-off gain on disposal of subsidiaries during the nine months ended 30 September 2017.

Selling and distribution expenses amounted to approximately HK\$20,007,000 and HK\$17,570,000 for the nine months ended 30 September 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\$9,039,000 or 11.6% as compared with that of nine months ended 30 September 2017. Administrative expenses increased mainly due to the increase in staff costs.





Finance costs amounted to HK\$35,777,000 for the nine months ended 30 September 2018 (including guarantee fee on bank loans amounted to approximately 7,202,000) as compared with approximately HK\$26,452,000 for last corresponding period. The finance costs was mainly represented the interest expense on bank loans.

For the nine months ended 30 September 2018, the profit for the period was approximately HK\$2,551,000, whereas it was HK\$1,846,000 for the corresponding period in last year.

BUSINESS REVIEW AND OUTLOOK

During the period under review, with the support by the core technology and based on the geographical conditions, the Company continued using renewable shallow geothermal energy as an alternative energy source for northern heating; using northern heating heat pump technology to efficiently replace coal; ensuring 60% or above of heating energy consumption for northern buildings is the shallow geothermal energy that is renewable and stably supplied. To achieve non-combustion and zero-emission heating for buildings in the regions so as to realizing clean and intelligent heating which can fundamentally solve the environmental pollution caused by combustion heating.

In accordance with the three principles of General Secretary Xi Jinping on heating in the northern region, “enterprise-oriented, government-driven, and affordable for residents”, and under the guidance of “Notice on Accelerating the Development and Utilization of Shallow Geothermal Energy to Promote Coal-Reduction and Substitution in Northern Heating Regions” issued by the State Council’s six ministries and commissions, the Company has successively carried out business negotiations in Handan, Zhangjiakou, Qinhuangdao, Tianjin, Zhangqiu, Zhengzhou as well as in more than 10 regions along the coasts of the Yangtze River. It is committed to fully cooperate with local governments and enterprises to promote the utilization of shallow geothermal energy and to speed up the development of clean and intelligent heating.





Up to now, after obtaining coal-to-electricity projects in some Beijing areas in 2017, the Company has also obtained projects such as the Yanqing Old County Village Coal-to-Electricity Project, the Shijingshan Insurance Industrial Park Phase II, and the Foreign Language School Yanqing Campus. Currently, the Company has 25 projects in operation, including 15 new projects and 10 rectification projects. At the same time, influenced by the domestic real estate situation, some of the original planned contracted projects or tracking projects was delayed or cancelled which made greater impact on the Company's revenue.

During the period under review, the Company continued to strengthen the internal cost reduction and efficiency enhancement. The Company's material center has improved the procurement process and equipment leasing. The Company will continuously improve the procurement process and price comparison method in the next step to ensure cost control from the source and ensure material supply for projects in timely and reasonable manner.

At the same time, combined with the Company's actual business processes, the Company's comprehensive budget management, project management, project independent accounting and other management measures as well as the system construction and quantitative assessment measures are all constantly strengthened so that every tasks has its goals with independent assessment, work can be traced, rewards and punishments have its basis. By all these measures to continuously improve the Company's management philosophy and management methods so as to enhance the overall management level of the Group.



FINANCIAL RESULTS

The Board of Directors (the "Board") of China Geothermal Industry Development Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2018 together with the unaudited comparative figures for the corresponding periods in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2018

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	113,756	237,122	392,278	479,582
Cost of sales		(112,202)	(200,160)	(277,144)	(351,558)
Gross profit		1,554	36,962	115,134	128,024
Other income and gains	4	871	13	2,346	3,772
Selling and distribution expenses		(5,897)	(5,248)	(20,007)	(17,570)
Administrative expenses		(25,275)	(25,869)	(87,034)	(77,995)
Finance costs	5	(10,328)	(9,395)	(35,777)	(26,452)
Fair value changes on investment properties		56,247	–	57,314	16,883
Share of profits and losses of:					
A joint venture		273	668	547	(192)
Associates		(3,020)	4,387	(4,342)	3,560
Share-based payments		(841)	(2,527)	(2,526)	(7,581)
Profit/(loss) before tax	6	13,584	(1,009)	25,655	22,449
Income tax expense	7	(14,694)	247	(23,104)	(20,603)
(Loss)/profit for the period		(1,110)	(762)	2,551	1,846

	Three months ended		Nine months ended	
	30 September		30 September	
Notes	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Attributable to:				
Owners of the parent	4,663	896	13,434	6,956
Non-controlling interests	(5,773)	(1,658)	(10,883)	(5,110)
	<u>(1,110)</u>	<u>(762)</u>	<u>2,551</u>	<u>1,846</u>
Earnings per share attributable to ordinary equity holders of the parent				
Basic and diluted (expressed in HK cents)	0.116	0.023	0.334	0.213

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	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit for the period	(1,110)	(762)	2,551	1,846
Other comprehensive (loss)/ income:				
Other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	(49,366)	30,488	(64,757)	59,836
Share of other comprehensive income/(loss) of a joint venture	20	(18)	29	(6)
Share of other comprehensive (loss)/income of associates	(187)	102	(232)	113
Net other comprehensive (loss)/ income to be reclassified to profit or loss in subsequent periods	(49,533)	30,572	(64,960)	59,943



Notes	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Net gain on equity instruments at fair value through other comprehensive income	45	-	3,380	-
Gain on property revaluation	-	-	1,808	5,630
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	45	-	5,188	5,630
Total other comprehensive (loss)/income for the period	(49,488)	30,572	(59,772)	65,573
Total comprehensive (loss)/income for the period	(50,598)	29,810	(57,221)	67,419
Attributable to:				
Owners of the parent	(43,762)	30,774	(44,984)	71,069
Non-controlling interests	(6,836)	(964)	(12,237)	(3,650)
	(50,598)	29,810	(57,221)	67,419





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018

1. CORPORATE INFORMATION

China Geothermal Industry Development 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 unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2018 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 (“HKFRS”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The unaudited 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 unaudited condensed consolidated financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2017, except for the adoption of the 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 unaudited condensed consolidated third quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

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

Basis of consolidation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months ended 30 September 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).



2. BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 noncontrolling 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

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.

Set out below is the disaggregation of the Group's revenue.

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Type of goods or service				
Sale, installation and maintenance of shallow geothermal energy utilisation system	95,947	233,148	361,370	468,052
Sale of air conditioning heat pump products	14,047	–	14,114	–
Rental income	3,762	3,974	16,794	11,530
Total revenue	113,756	237,122	392,278	479,582
Geographical markets				
The PRC	113,756	237,122	392,278	479,582
Total revenue	113,756	237,122	392,278	479,582
Timing of revenue recognition				
Goods transferred at a point in time	14,047	–	14,114	–
Services transferred over time	95,947	233,148	361,370	468,052
Total revenue from contracts with customers	109,994	233,148	375,484	468,052
Rental income	3,762	–	16,794	–
Total revenue	113,756	233,148	392,278	468,052

There were no inter-segment sales in the current period (2017: Nil).

4. OTHERS INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other income				
Bank interest income	27	13	220	71
Sale of scrap materials	85	-	410	19
Dividend income from financial assets				
at fair value through profit or loss	-	-	13	-
Government grants (Note)	724	-	820	-
Others	77	-	594	233
	<u>913</u>	<u>13</u>	<u>2,057</u>	<u>323</u>
Gains				
Fair value change on financial assets at				
fair value through profit or loss	(42)	-	289	-
Gain on disposal of subsidiaries	-	-	-	3,449
	<u>(42)</u>	<u>-</u>	<u>289</u>	<u>3,449</u>
	<u>871</u>	<u>13</u>	<u>2,346</u>	<u>3,772</u>

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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on bank loans, overdraft and other loans	8,031	9,395	28,570	26,452
Guarantee fee on bank loans	2,297	–	7,207	–
	<u>10,328</u>	<u>9,395</u>	<u>35,777</u>	<u>26,452</u>

6. PROFIT/(LOSS) BEFORE TAX

Profit/(Loss) before tax is arrived at after charging:

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sales	12,733	–	12,779	–
Cost of services provided	99,469	200,160	264,365	351,558
Depreciation	2,569	2,130	7,684	6,750
Minimum lease payments under operating leases	4,040	2,558	6,095	6,929
Employee benefit expense (including directors' and chief executive remuneration)	23,707	18,127	67,715	60,250
	<u>23,707</u>	<u>18,127</u>	<u>67,715</u>	<u>60,250</u>



7. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax	646	(247)	8,874	16,560
Deferred tax	14,048	-	14,230	4,043
Income tax expense recognised in statement of profit or loss	14,694	(247)	23,104	20,603

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the nine months ended 30 September 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 nine months ended 30 September 2018 and 2017.

8. DIVIDENDS

No interim dividend was paid, declared or proposed during the nine months ended 30 September 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

9. 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: 3,263,363,000) in issue during that period.

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 nine months ended 30 September 2018 and 2017.

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

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Earnings				
Profit for the period attributable to				
ordinary equity holders of the parent	<u>4,663</u>	<u>896</u>	<u>13,434</u>	<u>6,956</u>
	'000	'000	'000	'000
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>3,832,388</u>	<u>4,026,925</u>	<u>3,263,363</u>

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

For the nine months ended 30 September 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	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	-	-	-	-	-	-	-	-	-	6,956	6,956	(5,110)	1,846	
Other comprehensive income/ (loss) for the period	-	-	-	5,630	-	-	-	-	58,483	-	64,113	1,460	65,573	
Total comprehensive income/ (loss) for the period	-	-	-	5,630	-	-	-	-	58,483	6,956	71,069	(3,650)	67,419	
Issue of shares (Note f)	89,803	25,252	-	-	-	-	-	-	-	-	115,055	-	115,055	
Share issue expenses (Note f)	-	(2,857)	-	-	-	-	-	-	-	-	(2,857)	-	(2,857)	
Appropriation	-	-	356	-	-	-	-	-	-	(356)	-	-	-	
Share-based payments	-	-	-	-	-	-	-	7,581	-	-	7,581	-	7,581	
At 30 September 2017 (unaudited)	313,793	903,884	3,291	33,716	154,381	2,975	31,811	44,064	(937)	99,717	1,586,695	41,805	1,628,500	
	Attributable to owners of the parent													
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-option reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(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	-	-	-	-	-	-	-	-	-	13,434	13,434	(10,883)	2,551	
Other comprehensive income/ (loss) for the period	-	-	-	1,808	-	-	3,380	-	(63,606)	-	(58,418)	(1,354)	(59,772)	
Total comprehensive income/ (loss) for the period	-	-	-	1,808	-	-	3,380	-	(63,606)	13,434	(44,984)	(12,237)	(57,221)	
Share-based payments	-	-	-	-	-	-	-	2,526	-	-	2,526	-	2,526	
At 30 September 2018 (unaudited)	313,793	903,884	2,935	44,806	154,381	2,975	36,192	48,555	(39,853)	117,084	1,584,752	47,583	1,632,335	

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

Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the 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) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior year.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year and the fair value changes in equity instrument at fair value through other comprehensive income.
- (f) On 18 July 2017, 1,150,550,046 ordinary shares were issued and allotted to the shareholders of the Company on the basis of two rights share for every five ordinary share for consideration of HK\$0.10 per share (the "Rights Issue"). The gross proceeds raised amounted to approximately HK\$115,055,000 (before transaction costs of approximately HK\$2,857,000) and resulted in the net increase in share capital and share premium of approximately HK\$89,803,000 and HK\$25,252,000 respectively. The Rights Issue was completed on 18 July 2017. Details of the Rights Issue are set out in the circular of the Company dated 19 May 2017 and prospectus of the Company dated 26 June 2017.

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

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

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

Notes:

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 30 September 2018, the following directors 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 30 September 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



Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 September 2018
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 30 September 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 30 September 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 (Note 1)	Beneficial owner	1,190,000,000 (L)		29.55%	-	1,190,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	1,190,000,000 (L)		29.55%	-	1,190,000,000 (L)	29.55%
Ms. Luk Hoi Man (Note 2)	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:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP”), therefore, under the SFO, CECEP is deemed to be interested in 1,190,000,000 Shares.
2. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 982,800 Shares. Mr. Xu is interested in 711,646,600 Shares and 37,725,148 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 711,646,600 Shares and 37,725,148 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 30 September 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 30 September 2018, options to subscribe for an aggregate of 486,182,851 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 September 2018 were as follows:

Name	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 30 September 2018	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
Directors									
Mr. Xu Shengheng	9 September 2010	13,024,158	-	-	-	13,024,158	-	9 September 2010 to 8 September 2020	0.379
	8 December 2016	24,700,990	-	-	-	24,700,990	-	8 December 2016 to 31 December 2020	0.267
Ms. Chan Wai Kay Katherine	9 September 2010	19,087,129	-	-	-	19,087,129	-	9 September 2010 to 8 September 2020	0.379
	8 December 2016	24,700,990	-	-	-	24,700,990	-	8 December 2016 to 31 December 2020	0.267
Mr. Wang Manquan	9 September 2010	1,871,288	-	-	-	1,871,288	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
	9 September 2010	1,871,288	-	-	-	1,871,288	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
	9 September 2010	1,871,285	-	-	-	1,871,285	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
	8 December 2016	24,700,990	-	-	-	24,700,990	-	8 December 2016 to 31 December 2020	0.267
Mr. Jia Wenzeng	9 September 2010	1,684,158	-	-	-	1,684,158	-	9 September 2010 to 8 September 2020	0.379
	8 December 2016	3,143,762	-	-	-	3,143,762	-	8 December 2016 to 31 December 2020	0.267
Mr. Wu Desheng	8 December 2016	3,143,762	-	-	-	3,143,762	-	8 December 2016 to 31 December 2020	0.267
Employees									
	9 September 2010	22,778,804	-	-	-	22,778,804	-	9 September 2010 to 8 September 2020	0.379
	9 September 2010	33,683,168	-	-	-	33,683,168	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.379
	9 September 2010	33,683,168	-	-	-	33,683,168	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.379
	9 September 2010	33,683,170	-	-	-	33,683,170	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.379
	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	121,277,371	-	-	-	121,277,371	8 December 2016 to 7 December 2018	8 December 2018 to 31 December 2020	0.267
		486,182,851	-	-	-	486,182,851			





COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

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

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

Hong Kong, 14 November 2018

