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CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

FIRST QUARTERLY REPORT

2010

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

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

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

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This report, for which the directors (the “Directors”) of China Ground Source Energy Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 recorded approximately HK\$60,555,000 for the Review Period.

Profit attributable to equity holders of the Company for the Review Period amounted to approximately HK\$3,838,000.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

During the period, in order to accelerate the promotion and application of energy conservation and emission reduction technology, the National Development and Reform Commission, the Ministry of Finance, the People's Bank of China and the State Administration of Taxation jointly issued the Opinions on Accelerating the Implementation of Energy Management Contracting to Promote the Development of Energy Conservation Service Industry (《關於加快推行合同能源管理促進節能服務產業發展的意見》), providing greater support for the development of energy management contract service industry. Ever Source Scientific and Technology Development Co., Ltd. ("HY") under China Ground Source Energy Limited ("the Company") and its subsidiaries ("the Group"), by combining its international patent technology of shallow ground energy collection through Single-well Circulation Heat Exchange with the internationally-accepted technology of buried pipes, has proved its Ground-source Heat Pump System to be fully applicable in locations of various geological conditions and highly efficient in providing heating to buildings in a clean and emission-free way, i.e. free of pollution, water loss and potential geological risks, which realizes the energy conservation and emission reduction. With the patent technology, the Group makes great efforts on the promotion of energy management contracting business. As the Chinese government has launched a series of relevant supporting policies, the Group is very confident that the shallow ground energy utilisation as our core business is bound to grow at a high speed.

The Company has changed its financial year end from 30 September to 31 March. Consequently, the reporting period for the first quarter of this fiscal year covers three months from 1 April 2010 to 30 June 2010, while that for the first quarter of last fiscal year was from 1 October 2009 to 31 December 2009. As a result, the comparative figures for the corresponding period set out in this quarterly report represent the results recorded during the period from 1 April 2009 to 30 June 2009.

REVENUES

	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Shallow Ground Energy Utilisation	50,412	63,384
Environmental Protection	10,143	5,460
Total	60,555	68,844

Total revenues for the three months ended 30 June 2010 (the "Review Period") decreased approximately HK\$8,289,000 or 12% compared to the corresponding period of last year. Our business is project-based, dependent on winning projects and timing of customer implementation of such projects. During the Review Period, there is a seasonal shift in placing orders for the shallow ground energy business, it is expected that sales volume for this segment will pick up in the third to fourth quarter of the calendar year.

The increase in our gross profit margin is due to a combination of product and service mix with higher profit margin percentage and efficient cost reductions. The mix of services and product we sell in any one quarter is variable, and is prone to shift in ways that our future gross margin rate will vary accordingly.

COSTS AND EXPENSES

	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of Sales	34,227	56,469
Selling and Distribution costs	2,120	2,133
Administrative Expenses	15,900	15,191
Other Operating Expenses	–	26,860
Finance Costs	4,118	7,748
Taxes	1,532	668
Total	57,897	109,069

During the Review Period, CGS's cost and expenses decreased approximately HK\$51,172,000 or 47% compared to the corresponding period of last year due to the following factors:

- Cost of sales decreased approximately HK\$22,242,000 (40%) primarily due to more effective cost control implemented by the Group.
- Other operating expenses decreased approximately HK\$26,860,000 (100%) primarily due to the decrease of debt written off from other receivables of financial assets over the same period last year.
- Finance costs for the three months ended 30 June 2010 decreased approximately HK\$3,630,000 (47%) compared to the same period of 2009. The decrease was due primarily to the cancellation of convertible notes related to acquisition of Shenzhen Lisai.

Profit attributable to the equity holders of the Company was approximately HK\$3,838,000, or 6% of sales, in 2010 compared to a loss of approximately HK\$24,976,000, or 36% of sales in 2009. The changes in profit attributable to equity holders of the Company compared to last year was due to the increase in profit margin and decrease in total expenses.

BUSINESS REVIEW AND OUTLOOK

SHALLOW GROUND ENERGY UTILISATION

During the Review Period, HYY has been developing our substitute energy business. In May of this year, following the co-operation agreement signed with the government of Xinbin Manchu Autonomous County (新賓滿族自治縣), another cooperation agreement was signed between the Group and the government of Wafangdian City (瓦房店市) for constructing the main district in the coastal economic area of Wafangdian City (the "Main District") as an ecological low-carbon model district. The total area for construction as an ecological low-carbon model district is approximately 22.4 square kilometers. The Group shall assist in land development in the Main District by facilitating to formulate the overall planning of land use in Wafangdian City and the blueprints of the land use planning, city overall planning, and controls planning and energy planning in the Main District, so as to set an example for the utilisation of ground source energy as a new substitute energy to provide heating for buildings. The Group is actively liaising with the government of Wafangdian City in formulating the comprehensive land-use planning and blueprint and on the pre-planning arrangements for future development.

Besides, the Group established the joint venture Beijing Ever Hot Pumps Co., Ltd (北京永源熱泵有限責任公司) (“BEHP”) with Beijing Beiji Mechanical Industrial Company Limited (北京北機機電工業有限責任公司) (“Beijing Beiji”), a wholly-owned subsidiary of China Southern Industrial Group (中國南方工業集團). BEHP had begun the business operation in accordance with the terms of cooperation. Both parties have also completed the capital injection, it is presently in the process of completing the business registration with the relevant government authority. BEHP mainly engages in the production of ground energy heat pump mechanical units. With the cooperation with Beijing Beiji, we aim to expand BEHP’s existing production scale and improve its production capacity and efficiency and reduce product price, so as to meet the product demand for the Group and the overall market as well as to enhance the profitability of the Company.

ENVIRONMENTAL PROTECTION

During the Review Period, the CDM project of Xiaping landfill site has been under the management of Shenzhen Lisai Industrial Development Co., Ltd. (“Shenzhen Lisai”, a company principally engaging in the business of environmental protection), where the monthly amount of certified emissions reductions (“CERs”) has been increasing steadily. As the CERs transactions of the Company shall be subject to the approval by the Executive Board of United Nations authority, the certified volume of CERs for the period is still pending for approval.

Guanlan River sewage treatment project is operating steadily and the water quality after processing has reached the relevant requirement. The Company’s operation license will expire by the end of 2010, and the Company is actively preparing to rebid for the operation right of the project.

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Ground Source Energy Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 June 2010 together with the unaudited comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2010

	Notes	Three months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Revenue	2	60,555	68,844
Cost of sales		(34,227)	(56,469)
Gross profit		26,328	12,375
Other operating income		1,338	12,213
Selling and distribution costs		(2,120)	(2,133)
Administrative expenses		(15,900)	(15,191)
Other operating expenses		-	(26,860)
Profit /(loss) from operations		9,646	(19,596)
Share of results of associates & jointly controlled entity		(137)	(132)
Finance costs		(4,118)	(7,748)
Profit /(loss) before tax	3	5,391	(27,476)
Income tax (expense)	4	(1,532)	(668)
Profit /(Loss) for the period from continuing operation		3,859	(28,144)
Profit /(Loss) for the period from discontinued operations	5	-	(703)
Profit /(Loss) for the period		3,859	(28,847)
Other comprehensive income/(expense):			
Exchange differences arising on translation of foreign operation		(681)	(776)
Other comprehensive income/(expense) for the period		(681)	(776)
Total comprehensive income/(expense) for the period		3,178	(29,623)

	Notes	Three months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Profit/(loss) Attributable to:			
Equity holders of the Company		3,838	(24,976)
Non-controlling interests		21	(3,871)
		3,859	(28,847)
Total comprehensive			
income/(expense) attributable to:			
Equity holders of the Company		2,866	(25,744)
Non-controlling interests		312	(3,879)
		3,178	(29,623)
Earnings/(loss) per share			
	6		
Basic (HK cents)		0.22	(1.75)
Diluted (HK cents)		0.22	(1.75)

1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards and Interpretations (collectively, “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted in the preparation of this financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 March 2010.

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

2. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and business tax where applicable, and services rendered.

An analysis of the Group’s revenue is as follows:

	Three months ended 30 June	
	2010	2009
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Continuing Operations:		
Shallow ground energy utilisation	50,412	63,384
Environmental protection	10,143	5,460
	60,555	68,844
Discontinued Operations:		
Transmission	–	16,778
Total revenue from continuing operation and discontinued operations	60,555	85,622

3. PROFIT/(LOSS) BEFORE TAX

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

	Continuing operation		Discontinued operation		Consolidated	
	Three months ended 30 June		Three months ended 30 June		Three months ended 30 June	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of sales	34,227	56,469	-	15,165	34,227	71,634
Staff costs (including directors' emoluments)	7,251	7,132	-	182	7,251	7,314
Depreciation	1,355	2,784	-	229	1,355	3,013
Minimum lease payments under operating leases in respect of land and buildings	1,964	2,042	-	-	1,964	2,042
Write-off of other receivable of the disposed financial assets	-	26,693	-	-	-	26,693

4. INCOME TAX EXPENSE

	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
PRC corporate income tax	1,350	256
Deferred tax	182	412
	1,532	668

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 30 June 2010 (2009: Nil).

PRC corporate income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 30 June 2010.

5. RESULTS OF DISCONTINUED OPERATIONS

On 8 September 2009, II Networks International Limited, a wholly owned subsidiary of the Company, completed the disposal of the entire equity interest of Future Frontier Limited and its subsidiaries (the "Disposal"). Details of the Disposal are set out in the Company's circular dated 7 August 2009.

The unaudited consolidated results of the discontinued operations for the three months ended 30 June 2010 together with the unaudited comparative figures for the corresponding period in 2009 are as follows:

	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	–	16,778
Cost of sales	–	(15,165)
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Gross profit	–	1,613
Other revenue		368
Selling and distribution costs	–	(410)
Administrative expenses	–	(1,275)
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Profit/(loss) from operating activities	–	296
Finance costs	–	(999)
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Profit/(loss) before tax	–	(703)
Income tax expense	–	–
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Profit/(loss) after tax	–	(703)
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Attributable to:		
Equity holders of the Company	–	(359)
Non-controlling interests	–	(344)
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6. EARNINGS/(LOSS) PER SHARE

The basic and diluted earnings/(loss) per share for the three months ended 30 June 2010 and 2009 are calculated as follow:

	Three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Profit/(loss) attributable to equity holders of the Company for computation of basic and diluted earnings/(loss) per share	3,838	(24,976)

	Three months ended 30 June	
	2010	2009
Number of shares	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for computation of basic earnings/(loss) per share	1,713,624,784	1,428,555,895
Dilutive potential ordinary shares:		
– Share options	50,475,881	–
– Convertible notes	–	–

Weighted average number of ordinary shares for computation of diluted earnings/(loss) per share	1,764,100,665	1,428,555,895
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7. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 30 June 2010 and 2009

	Attributable to the owners of the Company										
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Assets revaluation reserve	Share-based payment reserve	Exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009											
(Previously reported)	440,935	516,630	289	123,680	1,321	779	7,957	(207,622)	883,969	54,654	938,623
Restatement of prior periods and opening balances	-	-	-	24,440	-	-	(69)	(6,426)	17,945	1,377	19,322
At 1 April 2009 (Restated)	440,935	516,630	289	148,120	1,321	779	7,888	(214,048)	901,914	56,031	957,945
Placing of new shares	85,800	(508)	-	-	-	-	-	-	85,292	-	85,292
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	(768)	(24,976)	(25,744)	(3,879)	(29,623)
At 30 June 2009 (Restated)	526,735	516,122	289	148,120	1,321	779	7,120	(239,024)	961,462	52,152	1,013,614
At 1 April 2010	529,387	517,867	1,139	87,910	-	26,240	6,713	(412,766)	756,490	45,237	801,727
Issue of shares upon exercise of share options	10,348	6,805	-	-	-	(6,195)	-	-	10,958	-	10,958
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	(972)	3,838	2,866	312	3,178
At 30 June 2010	539,735	524,672	1,139	87,910	-	20,045	5,741	(408,928)	770,314	45,549	815,863

8. DIVIDEND

The Board does not recommend payment of a dividend for the Review Period (2009: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2010, 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 POSITION IN SHARES AND EQUITY DERIVATIVES

Name of director	Capacity	Number of issued ordinary shares of US\$0.04 each in the Company held and the capacity			Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives			
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	–	–	13,750,000	–	–	
	Interest of spouse	10,074,000	0.58%	–	23,824,000	1.38%	
Mr. Wu Shu Min (Note 2)	Beneficial owner	36,505,750	2.11%	17,000,000	53,505,750	3.09%	
Mr. Xu Shengheng (Note 3)	Beneficial owner	279,890,000	16.18%	13,750,000	–	–	
	Interest of spouse	702,000	0.04%	–	–	–	
	Interest of controlled corporation	–	–	170,000,000	464,342,000	26.84%	
Ms. Chan Man Kuen Laura	Beneficial owner	1,250,000	0.07%	–	1,250,000	0.07%	

Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 13,750,000 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. In addition, Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 10,074,000 shares of the Company (“Shares”). Under SFO, Ms. Chan is also deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
2. Mr. Wu Shu Min is interested in 36,505,750 Shares and 17,000,000 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.
3. Mr. Xu Shengheng (“Mr. Xu”) holds 279,890,000 Shares and 13,750,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (B) of the section. Ever Sincere Investment Ltd. (“Ever Sincere”) is 100% owned by Mr. Xu. Ms. Luk Hoi Man (“Ms. Luk”), is the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in 279,890,000 Shares, 702,000 Shares in which Ms. Luk is interested, 170,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere and 13,750,000 Shares issuable pursuant to exercise of share options of the Company.

(B) LONG POSITION UNDER EQUITY DERIVATIVES

The Scheme

On 22 November 2001, the Company conditionally adopted a share option scheme (the “Scheme”) for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company’s shares on the GEM of the Stock Exchange on 30 November 2001. Under the Scheme, the board of directors was authorised, at its absolute discretion, to grant options to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of the Scheme. As at 30 June 2010, the following directors of the Company were interested in the following options under the Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2010
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.8600	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.3120	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

Save as disclosed above, as at 30 June 2010, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 30 June 2010, shareholders (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 provision 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

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
China Standard Limited (Note 1)	Beneficial owner	125,000,000	7.23%	–	125,000,000	7.23%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	131,429,000	7.60%	–	131,429,000	7.60%
Cheung Kwan (Note 2)	Beneficial owner	39,350,000	2.27%	–	170,779,000	9.87%
	Interest of controlled corporation	131,429,000	7.60%	–		
Ever Sincere Investment Limited (Note 3)	Beneficial owner	–	–	170,000,000	170,000,000	9.83%
Luk Hoi Man (Note 4)	Beneficial owner	702,000	0.04%	–	464,342,000	26.84%
	Interest of spouse	279,890,000	16.18%	183,750,000		

Notes:

1. These are the consideration shares issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
2. Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 170,779,000 Shares.
3. These are conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere Investment Limited ("Ever Sincere") pursuant to the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.
4. Ms. Luk Hoi Man ("Ms. Luk"), is the spouse of Mr. Xu Shengheng ("Mr. Xu"). Therefore, under SFO, Ms. Luk is deemed to be interested in 279,890,000 Shares and 183,750,000 underlying shares of the Company including 13,750,000 Share options that Mr. Xu is interested in otherwise than by virtue of interest of spouse.

Save as disclosed above, as at 30 June 2010, 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

THE SCHEME

As at 30 June 2010, options to subscribe for an aggregate of 104,360,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2010 were as follows:

Date of grant of share options	As at 1 April 2010	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 30 June 2010	Exercise period of share options	Exercise price per share HK\$
1 March 2002	75,000	-	-	-	-	75,000	1 March 2002 to 21 December 2011	1.9000
7 March 2002	2,500,000	-	-	-	-	2,500,000	7 March 2002 to 21 December 2011	1.8600
5 June 2003	750,000	-	-	-	-	750,000	5 June 2003 to 21 December 2011	0.3120
29 May 2007	2,750,000	-	-	-	-	2,750,000	29 May 2007 to 21 December 2011	0.8560
23 June 2009	131,450,000	-	-	33,165,000	-	98,285,000	23 June 2009 to 21 December 2011	0.3304
	<u>137,525,000</u>	<u>-</u>	<u>-</u>	<u>33,165,000</u>	<u>-</u>	<u>104,360,000</u>		

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Paul Chow Wan Hoi and Ms. Laura Chan Man Kuen. 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 Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

By order of the Board
China Ground Source Energy Limited
Chan Wai Kay, Katherine
Chairman

Hong Kong, 13 August 2010