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CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



**2011
THIRD QUARTERLY REPORT**



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

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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 was approximately HK\$215 million for the Review Period.

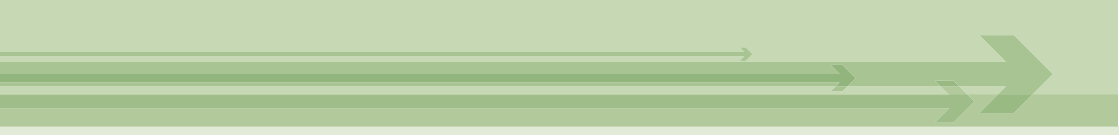
Net profit after tax of the Group for the Review Period amounted to approximately HK\$46 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively the "Group"). For more detailed information, please refer to the unaudited consolidated financial statements for the nine months period ended 31 December 2011 (the "Review Period") and 31 December 2010.

	Three months Ended 31 December		Nine months Ended 31 December	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations:				
<i>Revenue</i>				
– Shallow ground energy utilisation system	79,396	98,509	214,693	277,211
Discontinued operation:				
<i>Revenue</i>				
– Sewage and gas treatment income	–	–	–	14,016
Profit for the period from continuing operations	19,990	13,605	46,198	42,893
Profit for the period	19,990	13,605	46,198	55,375
Profit attributable to owners of the Company	16,686	12,736	41,075	53,482



During the Review Period, the Group's revenue amounted to approximately HK\$215 million which was contributed by shallow ground energy utilisation business as compared with that of approximately HK\$277 million for the corresponding period last year. Although the revenue reduced by approximately HK\$62 million as compared with that of last corresponding period, the Group's gross profit margin increased from 42% for the corresponding period last year to 48% for the nine months ended 31 December 2011.

On 27 August 2010, the Board announced the disposal of the entire interest in sewage and gas treatment business and, therefore, this segment has been classified as discontinued operation in the corresponding period last year.

Other income decreased from approximately HK\$15 million in the corresponding period last year to approximately HK\$9 million for the nine months ended 31 December 2011 due to the absence of a one-off gain on the disposal of the wholly owned subsidiary, Hunan IIN International Co., Limited which was recorded in the corresponding period last year.

Selling and distribution costs increased by approximately HK\$2 million, or 15% as compared with that of nine months ended 31 December 2010. The increase is primarily due to the increase of after sales service cost of company projects.

Administrative expenses amounted to approximately HK\$46 million and HK\$48 million for the nine months ended 31 December 2011 and 2010 respectively. The expenses were maintained at similar level as compared with the corresponding period last year.

No finance costs was recorded for the nine months ended 31 December 2011 as compared with approximately HK\$7.5 million for last corresponding period due to conversion of convertible notes to ordinary share capital on 14 September 2010.

Profit attributable to owners of the Company decreased from approximately HK\$53 million in the corresponding period last year to approximately HK\$41 million for the Review Period and such decrease was mainly attributable to the absence of a one-off gain on the disposal of IIN Network Technology Limited and its subsidiaries that recorded in the corresponding period last year and the decrease in revenue.



Acquisition of a subsidiary

During the nine months ended 31 December 2011, there was injection of capital amounted to approximately HK\$6 million by Ever Source Science and Technology Development Company Limited (恆有源科技發展有限公司), a subsidiary of the Group, to 綿陽市金恒源地能科技有限公司 (“金恒源”). The Group’s equity interest in 金恒源 had been increased from nil to 51%. 金恒源 is principally engaged in the production and sales of geothermal energy systems and was acquired with the objective of expanding the Group’s business.

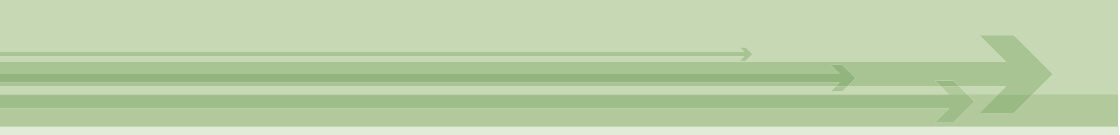
Capital Structure

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 23 March 2011, and the subsequent Order of the Grand Court of the Cayman Islands granted on 17 June 2011, the Company effected a capital reduction (the “Capital Reduction”) which took effect on 23 June 2011. The paid-up capital on each of its issued ordinary share of US\$0.04 was cancelled to the extent of US\$0.03 per share, and the nominal value of each of the issued ordinary shares of the Company was reduced from US\$0.04 per share to US\$0.01 per share.

A total credit of approximately HK\$483 million arose as a result of the Capital Reduction of which an amount of approximately HK\$329 million was applied towards writing off the accumulated losses of the Company as at 31 March 2011.

BUSINESS REVIEW AND OUTLOOK

Leveraging on advanced science and technology and backed by five diversified business models, Ever Source Science and Technology Development Company Limited (“HYY”), the operating unit of the Group, is committed to the scientific research and promotion of application of ground source energy as alternative energy for heating (cooling).



With technological innovation as its top priority, HYY has made continuous efforts to improve its research and development capability and enhance the commercialization and industrialization of its patent technologies. HYY's technological products have been developed into HYY Ground Source Energy Heat Pump System featuring various models and specifications that can be applied under varied hydrogeological conditions and for different construction functions. This technology has been adopted by a wide array of projects under various types of construction in a number of provinces and municipalities of the PRC. Due to its proactive initiative in expansion of marketing channels, the HYY's replicated promotion model has begun to bear fruit.

Beijing Shallow Geothermal Energy Project Technology Institute (北京淺層地能工程技術研究中心), the core research and development division of HYY, has realized the remarkable achievement in the research and application of the single well circulation ground source energy heat collection technology. Recently, for the research and development of the "machine-roomless ground source energy heat pump system", the Institute has broken through the technical bottlenecks of noise nuisance to the public and overcome some system control issues. The technology of this system has attracted great attention from the government and is expected to be applied in the construction of affordable housing.

Dalian Wanghaixingcheng project, a self-built demonstration leasing project with application of ground source energy invested by the Group is under construction as scheduled. The phase I of the project is estimated to be completed within 2012.

Spurred on by favorable government policies and development of the global energy industry, the Group will seize every business opportunity and place equal emphasis on organic growth and external expansion by upholding down-to-earth yet innovative development philosophy to establish itself as the most competitive enterprise with application of ground source energy as alternative energy for heating.

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 and nine months ended 31 December 2011 together with the unaudited comparative figures for the corresponding periods in 2010 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the nine months ended 31 December 2011

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing Operations					
Revenue	2	79,396	98,509	214,693	277,211
Cost of sales		(37,159)	(56,232)	(111,472)	(161,268)
Gross profit		42,237	42,277	103,221	115,943
Other income		2,987	1,448	8,587	15,457
Selling and distribution costs		(5,435)	(4,297)	(13,019)	(11,344)
Administrative expenses		(15,253)	(20,954)	(45,901)	(47,597)
Profit from operations		24,536	18,474	52,888	72,459
Share of results of associates		1,213	111	2,970	774
Share-based payments		(1,568)	(3,200)	(7,424)	(18,922)
Change in fair value of investment property		-	-	18,391	-
Finance costs		-	-	-	(7,488)
Profit before tax		24,181	15,385	66,825	46,823
Income tax expense	3	(4,191)	(1,780)	(20,627)	(3,930)
Profit for the period from continuing operations		19,990	13,605	46,198	42,893
Discontinued Operation					
Profit for the period from discontinued operation	4	-	-	-	12,482
Profit for the period	5	19,990	13,605	46,198	55,375

Condensed Consolidated Statement of Comprehensive Income (Cont'd)

For the nine months ended 31 December 2011

	Note	Three months ended 31 December		Nine months ended 31 December	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Other comprehensive income (expenses):					
Exchange differences arising on translation of foreign operation		3,392	2,353	15,410	4,188
Release of exchange translation reserve upon deregistration of subsidiaries		1,519	–	1,519	–
Release of exchange translation reserve upon disposal of subsidiaries		–	–	–	(6,218)
Other comprehensive income (expense) for the period		4,911	2,353	16,929	(2,030)
Total comprehensive income for the period		24,901	15,958	63,127	53,345
Profit attributable to:					
Owners of the Company		16,686	12,736	41,075	53,482
Non-controlling interests		3,304	869	5,123	1,893
		19,990	13,605	46,198	55,375
Total comprehensive income attributable to:					
Owners of the Company		22,113	14,656	56,816	50,260
Non-controlling interests		2,788	1,302	6,311	3,085
		24,901	15,958	63,127	53,345
Earnings per share	7				
From continuing and discontinued operations:					
Basic-(HK Cents)		0.81	0.70	1.99	3.02
Diluted-(HK Cents)		0.81	0.69	1.99	2.96
From continuing operations:					
Basic-(HK Cents)		0.81	0.70	1.99	2.32
Diluted-(HK Cents)		0.81	0.69	1.99	2.27



Notes to the Condensed Consolidated Financial Statements

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Listing Rules) and with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in preparing the annual audited financial statements for the year ended 31 March 2011.

The Group has adopted new and amended standards and interpretations of HKFRS which are mandatory for the accounting periods beginning on or after 1 April 2011 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated third quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

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

2. REVENUE

Revenue represents the net amounts received and receivable for goods sold to customers, net of 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		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations:				
Shallow ground energy utilisation system	79,396	98,509	214,693	277,211
Discontinued operation:				
Sewage and gas treatment income	–	–	–	14,016

3. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations:				
PRC corporate income tax	4,171	1,507	16,009	2,992
Deferred tax	20	273	4,618	938
	4,191	1,780	20,627	3,930

4. DISPOSAL OF SUBSIDIARIES

For the period ended 31 December 2010

- (a) On 13 September 2010, the Group disposed of its wholly-owned subsidiaries, IIN Network Technology Limited and its subsidiaries to an independent third party at a consideration of HK\$30,000,000.

The profit/(loss) from the discontinued operation for the period is analysed as follows:

	From 1 April 2010 to 31 December 2010 HK\$'000 (Unaudited)
Loss of environmental protection operation for the period	(3,567)
Gain on disposal of environmental protection operation	16,049
	<hr/>
	12,482

4. DISPOSAL OF SUBSIDIARIES (CONT'D)

For the period ended 31 December 2010 (Cont'd)

(a) (Cont'd)

The results of the environmental protection operation for the period were as follows:

	From 1 April 2010 to 31 December 2010 HK\$'000 (Unaudited)
Revenue	14,016
Cost of sales	(13,424)
Administrative expenses	(4,644)
Other revenue	485
Gain on disposal of subsidiary	16,049
<hr/>	
Profit before tax	12,482
Income tax expense	–
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Profit for the period	12,482
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(b) On 4 August 2010, the Group disposed of a wholly-owned subsidiary, Hunan IIN International Co. Limited ("Hunan IIN"), to an independent third party at a minimal consideration.

Hunan IIN had no significant contribution to the turnover and results of the Group for the nine months ended 31 December 2010.

5. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations:				
Cost of sales	37,159	56,232	111,472	161,268
Staff costs (including directors' emoluments)	9,840	7,548	27,620	22,521
Depreciation and amortisation	841	797	2,414	3,543
Payments under operating leases in respect of land and buildings	1,435	1,461	4,823	4,873
Share-based payment	1,568	3,200	7,424	18,922

6. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of an interim dividend for the nine months ended 31 December 2011 (2010: NIL).

7. EARNINGS PER SHARE

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Earnings for the purpose of basic earnings and diluted earnings per share	16,686	12,736	41,075	53,482
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,065,307	1,830,103	2,065,307	1,769,006
Effect of dilutive potential ordinary shares:				
Share options (<i>Note</i>)	–	18,923	–	35,390
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,065,307	1,849,026	2,065,307	1,804,396

Note:

The calculation of diluted earnings per share for the nine months ended 31 December 2011 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for nine months ended 31 December 2011.

7. EARNINGS PER SHARE (CONT'D)

From continuing operations:

	Three months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company	16,686	12,736	41,075	53,482
Less: Profit for the period from discontinued operation	-	-	-	(12,482)
Earnings for purposes of basic and diluted earnings per share from continuing operations	16,686	12,736	41,075	41,000

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation:

For the nine months period ended 31 December 2010, basic earnings per share from discontinued operation is HK\$0.70 cents per share based on profit for the period from discontinued operation of HK\$12,482,000 and the denominators detailed above for basic earnings per share.

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

For the nine months ended 31 December 2010

	Attributable to owners of the Company										
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Capital 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
		(Note a)	(Note b)								
At 1 April 2010 (audited)	529,387	517,867	1,139	87,910	-	26,240	6,713	(412,766)	756,490	45,237	801,727
Profit for the period	-	-	-	-	-	-	-	53,482	53,482	1,893	55,375
Other comprehensive (expense) income for the period	-	-	-	-	-	-	(3,222)	-	(3,222)	1,192	(2,030)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	(3,222)	53,482	50,260	3,085	53,345
Disposal of subsidiaries	-	-	(5)	-	-	-	-	-	(5)	-	(5)
Exercise of share options	14,883	9,788	-	-	-	(8,911)	-	-	15,760	-	15,760
Conversion of convertible notes	26,871	95,384	-	(44,537)	-	-	-	-	77,718	-	77,718
Waiver of convertible notes	-	-	-	(18,473)	32,235	-	-	18,473	32,235	-	32,235
Cancellation of convertible notes	-	-	-	(24,900)	-	-	-	5,521	(19,379)	-	(19,379)
Recognition of share-based payment expenses	-	-	-	-	-	18,922	-	-	18,922	-	18,922
Appropriations	-	-	1,517	-	-	-	-	(1,517)	-	-	-
At 31 December 2010 (unaudited)	571,141	623,039	2,651	-	32,235	36,251	3,491	(336,807)	932,001	48,322	980,323

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

For the nine months ended 31 December 2011

	Attributable to the owners of the Company												
	Share capital	Share premium	Statutory reserve	Contributed surplus	Property revaluation reserve	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Accumulated (losses)/ profits	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	HK\$ '000	HK\$ '000
	(Note a)	(Note b)	(Note c)	(Note d)	(Note e)	(Note f)							
At 1 April 2011 (audited)	644,368	624,541	2,094	-	-	(1,694)	32,235	39,480	20,658	(355,315)	1,006,367	23,188	1,029,555
Profit for the period	-	-	-	-	-	-	-	-	-	41,075	41,075	5,123	46,198
Other comprehensive income for the period	-	-	-	-	-	-	-	-	15,741	-	15,741	1,188	16,929
Total comprehensive income for the period	-	-	-	-	-	-	-	-	15,741	41,075	56,816	6,311	63,127
Reduction of issued share capital	(483,274)	-	-	483,274	-	-	-	-	-	-	-	-	-
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(3,281)	(3,281)
Utilisation of the contributed surplus account to offset balances of accumulated losses	-	-	-	(328,895)	-	-	-	-	-	328,895	-	-	-
Recognition of share-based payments expenses	-	-	-	-	-	-	-	7,424	-	-	7,424	-	7,424
Lapse of share options	-	-	-	-	-	-	-	(17,611)	-	17,611	-	-	-
Surplus on revaluation of property	-	-	-	-	28,749	-	-	-	-	-	28,749	-	28,749
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	4,573	4,573
Deferred taxation liability arising from revaluation of property	-	-	-	-	(7,187)	-	-	-	-	-	(7,187)	-	(7,187)
Appropriations	-	-	649	-	-	-	-	-	-	(649)	-	-	-
At 31 December 2011 (unaudited)	161,094	624,541	2,743	154,379	21,562	(1,694)	32,235	29,293	36,399	31,617	1,092,169	30,791	1,122,960

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

Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.
- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) The contributed surplus arose as a result of the capital reduction of approximately HK\$483,274,000 took effect on 23 June 2011. An amount of approximately HK\$328,895,000 was applied towards writing off the Company's accumulated losses as at 31 March 2011.
- (d) During the nine months period ended 31 December 2011, property revaluation surplus arising from transfer of owner-occupied prepaid lease payments to investment property at the date of change of use amounted to approximately HK\$28,749,000.
- (e) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (f) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes.

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

As at 31 December 2011, 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

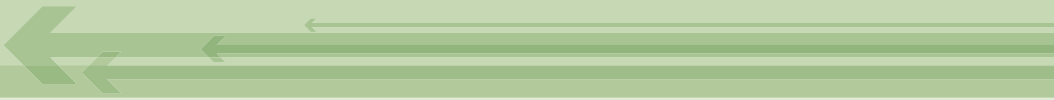
Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares					
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)		1.65%	17,000,000 (L)	61,074,000 (L)	2.96%
	Interest of spouse	10,074,000 (L)		0.49%	-		
Mr. Wu Shu Min (Note 2)	Beneficial owner	36,505,750 (L)		1.77%	11,600,000 (L)	48,105,750 (L)	2.33%
Mr. Xu Shengheng (Note 3)	Beneficial owner	608,319,000 (L)		29.45%	11,600,000 (L)	620,621,000 (L)	30.05%
	Beneficial owner	608,300,000 (S)		29.45%	-	608,300,000 (S)	29.45%
	Interest of spouse	702,000 (L)		0.03%			

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



Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 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 and Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 10,074,000 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is 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 11,600,000 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”) is interested in 608,319,000 Shares and 11,600,000 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. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in the 702,000 Shares in which Ms. Luk is interested.



(b) Long Positions under Equity Derivatives

(i) The Previous Scheme

On 22 November 2001, the Company conditionally adopted a share option scheme (the “Previous Scheme”) for a period of ten years from the date on which the Previous Scheme was adopted and became unconditional on 30 November 2001. The Previous Scheme was subsequently terminated on 7 August 2010 and all options granted but remain unexercised under the Previous Scheme have lapsed on 21 December 2011.

(ii) The Share Option Plan

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (the “Share Option Plan”) for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 31 December 2011, 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 31 December 2011
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Wu Shu Min	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Fu Hui Zhong	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Chow Wan Hoi Paul	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at 31 December 2011, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 31 December 2011, 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					
Luk Hoi Man (Note 1)	Beneficial owner	702,000 (L)		0.03%	-		
	Interest of spouse	608,319,000 (L)		29.45%	11,600,000 (L)	620,621,000 (L)	30.05%
	Interest of spouse	608,300,000 (S)		29.45%		608,300,000 (S)	29.45%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	131,429,000 (L)		6.36%	-	131,429,000 (L)	6.36%
Grand Concord Group Ltd. (Note 2)	Beneficial owner/Interest of controlled corporation	131,429,000 (L)		6.36%	-	131,429,000 (L)	6.36%

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



Notes:

1. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 702,000 Shares. Mr. Xu is interested in 608,319,000 Shares and 11,600,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 608,319,000 Shares and 11,600,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.
2. Financial International Holdings Limited is wholly-owned by Grand Concord Group Ltd. Therefore, under SFO, Grand Concord Group Ltd. is deemed to be interested in 131,429,000 Shares.

Save as disclosed above, as at 31 December 2011, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 31 December 2011, options to subscribe for an aggregate of 171,492,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 31 December 2011 were as follows:

Date of grant of share options	As at 1 April 2011	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 December 2011	Vesting period of share options	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	83,750,000	-	-	83,750,000	-	-	23 June 2009 to 21 December 2011	0.3304
9 September 2010	77,992,000	-	-	1,500,000	76,492,000	-	9 September 2010 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2011	9 September 2010 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2010 to 8 September 2020	0.4260
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2010 to 8 September 2020	0.4260
	262,817,000	-	-	91,325,000	171,492,000			



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.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions of the Code on Corporate Governance Practice set out in Appendix 15 of the GEM Listing Rules throughout the Review Period.

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.

After the resignation of Mr. Yau Kiam Fee as a member of the Audit Committee on 1 February 2012, the Audit Committee only comprises Mr. Jai Wenzeng (the Chairman of Audit Committee) and Mr. Chow Wan Hoi Paul, independent non-executive directors of the Company. Since then, the Company has failed to comply with the minimum number of three members for the Audit Committee as required under Rule 5.28 of the GEM Listing Rules. 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, and Mr. Wu Shu Min as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

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

Hong Kong, 13 February 2012