



TECHNOLOGY AND RESOURCES LINKS

FIRST QUARTERLY REPORT 2012

CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

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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\$59.8 million for the Review Period.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$3.9 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 three months ended 30 June 2012 (the "Review Period") and 30 June 2011.

	Three months ended	
	30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	59,834	57,273
Profit for the period	3,875	3,659
Profit attributable to owners of the Company	2,818	3,092

During the Review Period, the Group's revenue amounted to approximately HK\$59.8 million which was mainly contributed by geothermal energy utilisation business as compared with that of approximately HK\$57.3 million for the corresponding period last year. The revenue increased by approximately HK\$2.5 million as compared with that of last corresponding period, and the Group's gross profit margin maintained at approximately 44% for both periods.

Other income decreased from approximately HK\$2.5 million in the corresponding period last year to approximately HK\$2.3 million for the three months ended 30 June 2012. The other income was mainly attributable to the government grant and sales of raw materials.

Selling and distribution expenses amounted to approximately HK\$1.6 million and HK\$1.7 million for the three months ended 30 June 2012 and 2011 respectively. The expenses were maintained at similar level as compared with the corresponding period last year.

During the Review Period, administrative expenses increased by approximately HK\$1.3 million, or 8% as compared with that of three months ended 30 June 2011. The increase was primarily due to the expansion of businesses in different provinces in the People's Republic of China (the "PRC").


Finance costs amounted to HK\$0.8 million was recorded for the three months ended 30 June 2012 as compared with nil for last corresponding period. The increase in finance costs was mainly attributable to the bank interest expenses on the short term bank loan and imputed interest expenses on receipt in advance amounted to HK\$0.3 million and HK\$0.5 million respectively.

Profit attributable to owners of the Company was approximately HK\$2.8 million for the three months ended 30 June 2012 as compared to HK\$3.1 million in last corresponding period.

BUSINESS REVIEW AND OUTLOOK

Upholding energy conservation, environmental protection and energy efficiency as its mission, the Group is committed to the exploration and application of renewable resources. Leveraging on its five business models, the Group is engaged in the scientific research on and promotion of using geothermal energy as an alternative energy for heating.

Ever Source Science & Technology Development Group Ltd. ("HYY"), the operating entity in the PRC controlled by the Group, is an innovative designer of technical know-how and system integrator of applying geothermal energy as an alternative energy for heating. Taking geothermal energy as its most-preferred alternative energy for heating supply to construction projects, HYY has developed the HYY Geothermal Energy Heat-pump Environmental System based on its innovative HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology. Applying the HYY Geothermal Energy Heat-pump Environmental System can help realise heating/cooling supply to buildings at the investment and operating costs comparable to that of conventional energy. Clean and renewable geothermal energy now accounts for more than 60% of the total energy consumption for heating supply.



With HYY Single Well Circulation Heat Exchange Geothermal Energy Collection Technology which is originally developed in the PRC, as its core technology, the Group has successfully applied the geothermal energy as an alternative energy for heating supply in HYY Multi-source Distributed Energy Station. Moreover, the Group has managed to design a wide spectrum of application models of this technology to various designated specifications. Alleviating the burden of the urban power network without increasing the building area of public utilities, the Group has fully made use of clean and renewable geothermal energy as an alternative energy for heating supply to buildings through the technology application. HYY Multi-source Distributed Energy Station will be incorporated into urban infrastructure construction with a view to replacing the traditional heating supply facilities in urban areas.

Despite the pessimistic outlook of the property development industry in the PRC, with ever-growing social awareness about the practical value of geothermal energy as an alternative energy for heating supply, the emerging alternative energy industry is gaining growth momentum for its development in the PRC. To regulate and guide the construction of the single well circulation heat exchange geothermal energy collection well, Beijing Association to Promote Energy Conservation and Environmental Protection is now drafting and preparing the Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well, which will definitely facilitate the development of the Group.

On 11 April 2012, the Company entered into a letter of intent with China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited in relation to the allotment and issue of 850,000,000 subscription shares at a price of HK\$0.41 per subscription share. Allotment of part of the subscription shares shall be approved by the shareholders of the Company. On 22 June 2012, an ordinary resolution approving the specific mandate and the transaction contemplated thereunder was passed in the extraordinary general meeting. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 12 April 2012 and 5 June 2012 respectively.

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 2012 together with the unaudited comparative figures for the corresponding period in 2011 as follows:

Condensed Consolidated statement of comprehensive income

For the three months ended 30 June 2012

	Notes	Three months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue	2	59,834	57,273
Cost of sales		(33,566)	(32,303)
Gross profit		26,268	24,970
Other income		2,313	2,516
Selling and distribution expenses		(1,633)	(1,703)
Administrative expenses		(17,751)	(16,419)
Profit from operations		9,197	9,364
Share of results of associates		461	1,139
Share-based payments		(1,568)	(3,200)
Finance costs		(820)	–
Profit before tax		7,270	7,303
Income tax expense	3	(3,395)	(3,644)
Profit for the period	4	3,875	3,659

	Notes	Three months ended 30 June	
		2012 HK\$ '000 (Unaudited)	2011 HK\$ '000 (Unaudited)
Other comprehensive (expense)/income for the period:			
Exchange differences arising on translation of foreign operations		(8,029)	444
Total comprehensive (expense)/income for the period		(4,154)	4,103
Profit Attributable to:			
Owners of the Company		2,818	3,092
Non-controlling interests		1,057	567
		3,875	3,659
Total comprehensive (expense)/income attributable to:			
Owners of the Company		(4,112)	3,395
Non-controlling interests		(42)	708
		(4,154)	4,103
Earnings per share	6		
Basic (HK cents)		0.14	0.15
Diluted (HK cents)		0.14	0.15

Notes:

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 2012.

The Group has adopted new and amended standards and interpretations of HKFRSs which are mandatory for the accounting periods beginning on or after 1 April 2012 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated first quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. 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 accounts 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 allowance for returns and trade discounts where applicable and services rendered as well as gross rental income received from investment properties.

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

	Three months ended 30 June	
	2012 HK\$’000 (Unaudited)	2011 HK\$’000 (Unaudited)
Geothermal energy utilisation	59,754	57,273
Rental income	80	–
	59,834	57,273

3. INCOME TAX EXPENSE

	Three months ended	
	30 June	
	2012	2011
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)
PRC enterprise income tax	3,395	3,644

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 2012 (2011: Nil).

PRC enterprise income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 30 June 2012.

4. PROFIT FOR THE PERIOD

Profit for the period had been arrived at after charging:

	Three months ended	
	30 June	
	2012	2011
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)
Cost of sales	33,566	32,303
Staff costs (including directors' emoluments)	9,578	8,693
Depreciation & amortisation	778	900
Lease payments under operating leases		
in respect of land and buildings	1,766	1,564

5. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of any dividend for the three months ended 30 June 2012 (2011: nil).

6. 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	
	30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings and diluted earnings per share	2,818	3,092
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,065,307	2,065,307
Effect of dilutive potential ordinary shares:		
Share options (<i>note</i>)	18,546	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,083,853	2,065,307

Note: The calculation of diluted earnings per share for the three months ended 30 June 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 the three months ended 30 June 2011.

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

For the three months ended 30 June 2012 and 2011

	Attributable to owners of the Company										Non controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Accumulated losses	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
		(Note a)	(Note b)	(Note c)	(Note d)	(Note e)						
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	-	-	-	-	-	-	-	-	3,092	3,092	567	3,659
Other comprehensive income for the period												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	303	-	303	141	444
Total comprehensive income for the period	-	-	-	-	-	-	-	303	3,092	3,395	708	4,103
Reduction of issued share capital	(483,276)	-	-	483,276	-	-	-	-	-	-	-	-
Utilisation of the contributed surplus	-	-	-	(328,895)	-	-	-	-	328,895	-	-	-
Recognition of share-based payment expenses	-	-	-	-	-	-	3,200	-	-	3,200	-	3,200
At 30 June 2011 (unaudited)	161,092	624,541	2,094	154,381	(1,694)	32,235	42,680	20,961	(23,328)	1,012,962	23,896	1,036,858

7. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

	Attributable to owners of the Company												Non controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	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
At 1 April 2012 (audited)	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	29,705	35,826	46,464	1,109,249	39,171	1,148,420	
Profit for the period	-	-	-	-	-	-	-	-	-	2,818	2,818	1,057	3,875	
Other comprehensive expense for the period														
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(6,930)	-	(6,930)	(1,099)	(8,029)	
Total comprehensive (expenses)/income for the period	-	-	-	-	-	-	-	-	(6,930)	2,818	(4,112)	(42)	(4,154)	
Recognition of share-based payment expenses	-	-	-	-	-	-	-	1,568	-	-	1,568	-	1,568	
At 30 June 2012 (unaudited)	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	31,273	28,896	49,282	1,106,705	39,129	1,145,834	

7. 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 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 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) Pursuant to a special resolution passed by the shareholders at the extraordinary general meeting held on 23 March 2011 and the approval obtained from the Grand Court of the Cayman Islands on 17 June 2011, the issued share capital of the Company was reduced by reducing the nominal value of each share from US\$0.04 to US\$0.01, thereby cancelling the paid-up capital to the extent of US\$0.03 on each share in issue. The credit balance of approximately HK\$483,276,000 arising from the capital reduction was credited to the contributed surplus account of the Company and then approximately HK\$328,895,000 applied to set off against the accumulated losses as at 31 March 2011.
- (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.

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 2012, 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			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	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. Xu Shengheng (Note 2)	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%	-		
Ms. Luk Hoi Man (Note 3)	Beneficial owner	702,000 (L)	0.03%	-	620,621,000 (L)	30.05%
	Interest of spouse	608,319,000 (L)	29.45%	11,600,000 (L)		
	Interest of spouse	608,300,000 (S)	29.45%	-		

(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. 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. 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.
3. 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.

(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 June 2012, 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 June 2012
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. 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

* Mr. Chow Wan Hoi Paul resigned as director of the Company on 31 July 2012.

Save as disclosed above, as at 30 June 2012, 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 2012, 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 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					
Financial International Holdings Ltd. (Note 1)	Beneficial owner	125,000,000 (L)		6.05%	-	125,000,000	6.05%
Ms. Cheung Kwan (Note 1)	Interest of controlled corporation	125,000,000 (L)		6.05%	-	125,000,000	6.05%
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 2)	Beneficial owner	850,000,000 (L)		41.16%	-	850,000,000	41.16%
China Energy Conservation and Environmental Protection Group (Note 2)	Interest of controlled corporation	850,000,000 (L)		41.16%	-	850,000,000	41.16%

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

Note:

1. Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 125,000,000 Shares.
2. 850,000,000 Shares of the Company to be issued and allotted to China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (the "Subscriber") under the Letter of Intent entered into between the Subscriber and the Company dated 11 April 2012, details of the subscription can be referred to the Company's circular dated 5 June 2012. As the Subscriber is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP"), therefore, CECEP is deemed to be interested in 850,000,000 shares to be issued and allotted to the Subscriber.

Save as disclosed above, as at 30 June 2012, 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 June 2012, options to subscribe for an aggregate of 165,492,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2012 were as follows:

Date of grant of share options	As at 1 April 2012	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2012	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	70,492,000	-	-	-	70,492,000	-	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
	165,492,000	-	-	-	165,492,000			

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.

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. Wu Desheng and Mr. Hu Zhaoguang. 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 and Mr. Xu Shengheng as executive Directors, Ms. Luk Hoi Man as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang as independent non-executive Directors.

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

Hong Kong, 14 August 2012