



中國地能有限公司

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



First Quarterly Report
2013

**TECHNOLOGY
AND RESOURCES LINKS**

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\$38.53 million for the Review Period.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2.75 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 31 March 2013 (the "Review Period") and 31 March 2012.

	Three months ended	
	31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Revenue		
– Shallow geothermal energy utilisation	36,241	98,878
– Rental income	2,284	2,852
Total revenue	38,525	101,730
Profit for the period	2,750	8,578
Profit attributable to owners of the Company	1,506	4,824

During the Review Period, the Group's revenue amounted to approximately HK\$36.24 million which was mainly contributed by shallow geothermal energy utilisation business as compared with that of approximately HK\$98.88 million for the corresponding period last year. The revenue decreased by approximately HK\$62.64 million as compared with that of corresponding period last year, it was mainly attributable to 1) the suspension or delay of project construction due to Chinese New Year holidays and the administrative measures implemented in the period of annual sessions of National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) ("Two Sessions"); 2) energy contracting management projects in more than two million square meters of buildings is still in the investment stage for its guarantee operations; 3) a high base number for the corresponding period last year due to the acquisition of certain large value projects.

The Group's gross profit margin decreased from 47% in last corresponding period to 28% in the current period. It was mainly attributable to 1) the fulfillment of the Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well, which was jointly prepared by the Group and became effective on 1 April 2013, has lead to the increase in the collection equipment costs; 2) implementation of the new standards has significantly increased the costs of the projects; 3) the continuous hiking of labour costs. In summary, although the temporary decrease in the gross profit margin was caused by above factors, the works done above will greatly increase customers' loyalty to the enterprise.

Other income decreased from approximately HK\$4.94 million in the corresponding period last year to approximately HK\$1.06 million for the three months ended 31 March 2013. The decrease was mainly attributable to one-off recognition of the government grant in the corresponding period last year.

Selling and distribution expenses amounted to approximately HK\$30.92 million and HK\$1.97 million for the three months ended 31 March 2013 and 2012 respectively. In order to ensure the completed projects to meet the new standards, the Group committed to provide free modification, installation and testing of the customers' geothermal energy collection equipment so as to optimizing/improving of the customers' geothermal energy utilisation system, thereby enhancing the promotional effect, which attributable to the increase in selling and distribution expenses. Besides the initial investment in market development lead to a significant increase in selling and distribution expenses.

During the Review Period, administrative expenses decreased by approximately HK\$1.31 million, or 6% as compared with that of three months ended 31 March 2012. The expenses were maintained at similar level as compared with the corresponding period last year.

During the Review Period, the Group granted share options to the directors, chief executives, employees and business associates of the Company, this lead to the share-based payment increased from HK\$1.57 million in the corresponding period last year to HK\$6.71 million in the current period. In addition, the Group disposed a portion of self-built demonstration building in Beijing during the Review Period and it resulted in a gain of approximately HK\$51.57 million.

Finance costs of HK\$1.30 million was recorded for the three months ended 31 March 2013 as compared with approximately HK\$0.93 million for last corresponding period. The increase in finance costs was mainly attributable to the increase in the imputed interest expenses on receipt in advance.

Profit attributable to owners of the Company was approximately HK\$1.51 million for the three months ended 31 March 2013 (2012: HK\$4.82 million).

BUSINESS REVIEW AND OUTLOOK

The Review Period fell within the period of the 18th National Congress of the Communist Party of China (CPC) at which the central government advocated the basic state policies of energy conservation and environmental protection for the construction of ecological civilisation in order to build a beautiful China for the sustainable development of the nation. Upgraded to a national strategy, energy conservation and environmental protection have become a vital momentum for the transformation of growth mode and the acceleration of restructuring which will propel the industrial transformation and upgrading.

Upon investment in the Group by share subscription in August 2012, China Energy Conservation and Environmental Protection Group has become the single largest shareholder of the Company. Accordingly, the Board further deepened the operational and management model of “integrated horizontal pattern between Beijing and Hong Kong” as well as the business expansion model featuring “specialised corporate operation and group-wise regional development” between China Ground Source Energy Limited and Ever Source Science and Technology Development Group Ltd. Currently, the specialised companies under the Group are primarily engaged in the businesses of design, management of energy contract, manufacturing of system and equipment, proprietary technology service, professional collection of geothermal energy and installation of electrical and mechanical equipment.

Ever Source Science and Technology Development Group Ltd. (“HYY”) is the technological and industrial headquarters of China Ground Source Energy Limited in mainland China and focuses on the research, development and promotion of shallow geothermal energy as the alternative heating (cooling) energy for buildings. Relying on its core technology of “HYY single well circulation heat exchange geothermal energy collection”, HYY has developed multi-functional product series that satisfy different needs regardless of regions or geological conditions, such as the “HYY geothermal energy heat pump environmental system”, “HYY distributed geothermal energy as source of cooling/heating station” and “HYY machine room-less geothermal energy heat pump environmental system”.

The “HYY geothermal energy heat pump environmental system” integrates the heating (cooling) system of above-ground buildings with the underground areas where a large amount of shallow geothermal energy is available for collection. Therefore, a large amount of free natural energy is able to be collected and reused under dynamic equilibrium at the expense of merely a small amount of electrical power charged. Such natural energy is used to provide heating and cooling as well as hot water for domestic uses in buildings without pollution and emission. Similarly, the “HYY distributed geothermal energy as source of cooling/heating station” is also capable of providing heating (cooling) to urban buildings without pollution and emission; and the application technology of its system engineering features strong designability and can be adapted to a wide range circumstances without imposing additional initial investment and operational costs of buildings. The latest “HYY machine room-less geothermal energy heat pump environmental system” launched by HYY effectively solves the unique problem of heating (cooling) supply in southern China.

The Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well, a set of local standards for Beijing jointly prepared by the Group and other parties, has been published by the Beijing Municipal Administration of Quality and Technology Supervision, and became effective on 1 April 2013. The implementation of the standards has significantly intensified the expansive marketing of the technology and the grand development of the emerging industry of geothermal energy as the alternative heating (cooling) energy.

During the Review Period, the Group was picking up the pace to advocate the development of the utilisation of geothermal energy as an alternative energy for heating (cooling) in buildings through existing business models and profit models. The moves taken by the Group included entering into a sales and purchase agreement for products and services for a term of three years with China Energy Conservation and Environmental Protection Group and the Capital Increment Agreement with CECEP New Material Investment Co. Ltd, as well as the acceleration of the construction of the China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zones in Jinzhou, Dalian and Hangzhou, Zhejiang. It is believed that with the relentless efforts of the operating and managing teams of the Group, the development of the core business will have a more promising future.

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 31 March 2013 together with the unaudited comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2013

		Three months ended 31 March	
	Notes	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited) (Restated)
Revenue	2	38,525	101,730
Cost of sales		(27,618)	(54,049)
Gross profit		10,907	47,681
Other income		1,062	4,938
Selling and distribution expenses		(30,919)	(1,974)
Administrative expenses		(19,944)	(21,254)
(Loss) profit from operations		(38,894)	29,391
Gain on disposal of a portion of investment properties		51,573	–
Fair value changes on investment properties		–	4,294
Share of results of associates		(197)	(6,822)
Share-based payments		(6,707)	(1,568)
Finance costs		(1,301)	(925)
Profit before tax		4,474	24,370
Income tax expense	3	(1,724)	(15,792)
Profit for the period	4	2,750	8,578

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the three months ended 31 March 2013

	Notes	Three months ended 31 March	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited) (Restated)
Other comprehensive income:			
Gain on leasehold land and building revaluation		–	477
Fair value change on transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date		–	3,256
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date		–	(807)
Exchange differences arising on translation of foreign operations		4,175	(593)
Other comprehensive income for the period		4,175	2,333
Total comprehensive income for the period		6,925	10,911
Profit attributable to:			
Owners of the Company		1,506	4,824
Non-controlling interests		1,244	3,754
		2,750	8,578
Total comprehensive income attributable to:			
Owners of the Company		5,489	7,083
Non-controlling interests		1,436	3,828
		6,925	10,911
Earnings per share			
Basic (HK cents)	6	0.052	0.234
Diluted (HK cents)		0.052	0.234

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2013

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 audited financial statements for the nine months ended 31 December 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 January 2013 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 31 March	
	2013	2012
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited) (Restated)
Shallow geothermal energy utilisation system	36,241	98,878
Rental income	2,284	2,852
	38,525	101,730

3. INCOME TAX EXPENSE

	Three months ended 31 March	
	2013	2012
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited) (Restated)
PRC enterprise income tax	1,724	15,792

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 31 March 2013 (2012: 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 31 March 2013.

4. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Three months ended	
	31 March	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Cost of inventories sold	26,472	54,049
Staff costs (including directors' emolument)	13,291	7,175
Depreciation and amortisation	1,353	2,206
Minimum lease payments under operating leases in respect of land and buildings	3,077	2,858

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 31 March 2013 (2012: 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 31 March	
	2013 HK\$ '000 (Unaudited)	2012 HK\$ '000 (Unaudited) (Restated)
Earnings		
Earnings for the purpose of basic earnings and diluted earnings per share	1,506	4,824
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Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,902,827	2,065,307
Effect of dilutive potential ordinary shares:		
Share options (<i>note</i>)	-	-
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,902,827	2,065,307
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Note: The calculation of diluted earnings per share for the three months ended 31 March 2013 and 2012 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 31 March 2013 and 2012.

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

For the three months ended 31 March 2013

	Attributable to owners of the Company												
	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	Non-controlling interests	Total equity
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Note a)	(Note b)	(Note c)	(Note d)	(Note e)								
At 1 January 2012 (previously reported)	161,094	624,541	2,743	21,562	154,379	(1,694)	32,235	29,293	36,399	31,617	1,092,169	30,791	1,122,960
Restatement of prior periods and opening balances	(2)	-	(532)	-	2	-	-	-	8	(163)	(687)	279	(408)
At 1 January 2012 (restated)	161,092	624,541	2,211	21,562	154,381	(1,694)	32,235	29,293	36,407	31,454	1,091,482	31,070	1,122,552
Profit for the period	-	-	-	-	-	-	-	-	-	4,824	4,824	3,754	8,578
Other comprehensive income for the period:													
Gain on leasehold land and building revaluation	-	-	-	477	-	-	-	-	-	-	477	-	477
Fair value change on transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	-	-	-	3,256	-	-	-	-	-	-	3,256	-	3,256
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	-	-	-	(807)	-	-	-	-	-	-	(807)	-	(807)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(667)	-	(667)	74	(593)
Total other comprehensive income for the period	-	-	-	2,926	-	-	-	-	(667)	-	2,259	74	2,333
Total comprehensive income for the period	-	-	-	2,926	-	-	-	-	(667)	4,824	7,083	3,828	10,911
Recognition of share-based payment expenses	-	-	-	-	-	-	-	1,568	-	-	1,568	-	1,568
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	776	776
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	3,494	3,494
Lapse of share options	-	-	-	-	-	-	-	(1,156)	-	1,156	-	-	-
At 31 March 2012 (audited)	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	29,705	35,740	37,434	1,100,133	39,168	1,139,301

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

For the three months ended 31 March 2013

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Non-controlling Total interests	Total equity	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
At 1 January 2013 (audited)	226,053	903,241	2,211	24,162	154,381	(1,694)	32,235	33,196	42,968	83,385	1,500,138	39,680	1,539,818
Profit for the period	-	-	-	-	-	-	-	-	-	1,506	1,506	1,244	2,750
Other comprehensive expense for the period:													
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	3,983	-	3,983	192	4,175
Total comprehensive income for the period	-	-	-	-	-	-	-	-	3,983	1,506	5,489	1,436	6,925
Recognition of share-based payment expenses	-	-	-	-	-	-	-	6,707	-	-	6,707	-	6,707
Appropriations	-	-	9	-	-	-	-	-	-	(9)	-	-	-
At 31 March 2013 (unaudited)	226,053	903,241	2,220	24,162	154,381	(1,694)	32,235	39,903	46,951	84,882	1,512,334	41,116	1,553,450

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.

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

Notes: *(Continued)*

- (c) Contributed surplus represents the reserve arising from the cancellation of the paid-up capital and set off against the accumulated losses in prior year.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year.

8. CONNECTED TRANSACTIONS

Following connected transactions were entered into by the Company and its subsidiary during the reporting period:–

On 4 February 2013, Ever Source Science and Technology Development Group Limited (“HYY”), a subsidiary of the Company, and CECEP New Material Investment Co. Ltd, a connected person to the Group, have entered into the Capital Increment Agreement (“Capital Increment Agreement”). Pursuant to the Capital Increment Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Fujian CECEP Quancheng Investment Co., Ltd. at a total consideration of RMB40,000,000 (equivalent to approximately HK\$49,826,000). Details of the subscription are set out in the announcement of the Company dated 4 February 2013.

On 21 March 2013, the Company entered into the framework agreement (“Framework Agreement”) with China Energy Conservation and Environmental Protection Group (“CECEP”). Pursuant to the Framework Agreement, CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the products using “HYY single-well circulation for heat exchange geothermal energy collection technology” and the operational services provided by the Group’s subsidiaries. The term of the Framework Agreement is from the date of the independent shareholders’ approval of the Framework Agreement or 1 May 2013, whichever is the later, to 31 December 2015. The annual caps for the transactions contemplated thereunder shall not be more than the amounts prescribed pursuant to the Framework Agreement. Details of the proposed continuing connected transactions are set out in the announcement of the Company dated 21 March 2013 and the circular of the Company dated 13 May 2013.

9. EVENTS AFTER THE REPORTING PERIOD

On 19 April 2013, HYY, a subsidiary of the Company, and Zhejiang CECEP Green Construction Environmental Protection Technology Ltd. entered into a JV Contract in relation to the establishment of the JV Company, which will be owned by Zhejiang CECEP and HYY as to 51% and 49% with a registered capital of RMB600,000,000. The JV Company is established mainly for procuring a piece of land at West Lake District in Hangzhou City for construction of the "China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zone", and co-promotion of green buildings and geothermal energy utilisation demonstration projects.

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

As at 31 March 2013, 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)		1.17%	28,700,000 (L)	72,774,000 (L)	2.51%
	Interest of spouse	10,074,000 (L)		0.35%	-		
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)		17.51%	23,300,000 (L)	532,321,000 (L)	18.34%
	Beneficial owner	508,300,000 (S)		17.51%	-	508,300,000 (S)	17.51%
	Interest of spouse	702,000 (L)		0.02%	-		
Ms. Wu Xiaohua (Note 3)	Beneficial owner	-		-	3,500,000 (L)	3,500,000 (L)	0.12%
Mr. Jia Wenzeng (Note 4)	Beneficial owner	-		-	4,000,000 (L)	4,000,000 (L)	0.14%
Mr. Wu Desheng (Note 5)	Beneficial owner	-		-	2,500,000 (L)	2,500,000 (L)	0.09%

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

Notes:

- Ms. Chan Wai Kay Katherine ("Ms. Chan") is interested in 34,000,000 shares and 28,700,000 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.
- Mr. Xu Shengheng ("Mr. Xu") is interested in 508,319,000 Shares and 23,300,000 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. Wu Xiaohua is interested in 3,500,000 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.
4. Mr. Jia Wenzeng is interested in 4,000,000 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.
5. Mr. Wu Desheng is interested in 2,500,000 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.

(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 31 March 2013, 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 March 2013
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
Ms. Wu Xiaohua	6 February 2013	6 February 2013 to 5 February 2015	0.426	3,500,000
Mr. Wu Desheng	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000

Save as disclosed above, as at 31 March 2013, 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 March 2013, 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	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
	Capacity	Interest in shares				
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	850,000,000 (L)	29.28%	-	850,000,000 (L)	29.28%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	850,000,000 (L)	29.28%	-	850,000,000 (L)	29.28%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)	0.02%	-		
	Interest of spouse	508,319,000 (L)	17.51%	23,300,000 (L)	532,321,000 (L)	18.34%
	Interest of spouse	508,300,000 (S)	17.51%		508,300,000 (S)	17.51%

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

Notes:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP”), therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.
2. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 23,300,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 23,300,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 31 March 2013, 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 March 2013, options to subscribe for an aggregate of 355,992,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 31 March 2013 were as follows:

Date of grant of share options	As at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 March 2013	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 2011 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.4260
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.4260
6 February 2013	-	31,900,000	-	-	31,900,000	-	6 February 2013 to 5 February 2015	0.4260
6 February 2013	-	158,600,000	-	-	158,600,000	6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	0.4260
	165,492,000	190,500,000	-	-	355,992,000			

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 Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Ms. Wu Xiaohua and Ms. Xu Genghong as non-executive Directors, 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
Zheng Qiyu
Chairman

Hong Kong, 13 May 2013