



中國地能有限公司

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



Interim 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”)

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

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

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 for the six months ended 30 June 2013 (the "Review Period") amounted to approximately HK\$133.78 million.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$28.72 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 Review Period and the six months ended 30 June 2012.

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited) (Restated)
Revenue				
– Shallow ground source energy utilisation	92,946	59,754	129,187	158,632
– Rental income	2,311	80	4,595	2,932
Total revenue	95,257	59,834	133,782	161,564
Profit for the period	25,972	3,875	28,722	12,453
Profit attributable to owners of the Company	27,626	2,818	29,132	7,642

During the Review Period, the Group's revenue amounted to approximately HK\$129.19 million which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$158.63 million for the corresponding period last year. The revenue decreased by approximately HK\$29.44 million as compared with that of corresponding period last year, it was mainly attributable to the Group's concentration on its guarantee operations projects in the first quarter. Besides, the Group adopted new technology in order to satisfy the new standards of The Technical Code for single Well Circulation Heat Exchange Geothermal Energy Collection Well, which was published by the Beijing Municipal Administration of Quality and Technology Supervision in April 2013, thus the progress of the work done was retarded.

The Group's gross profit margin increased from 45.8% in last corresponding period to 55.5% in the current period. It was mainly attributable to the fact that the Group secured a technical support and consultation agreement with large contract sum in the second quarter. That contract has a higher gross profit margin which leads to the gross profit margin increased during the Review Period.

Other income decreased from approximately HK\$7.25 million in the corresponding period last year to approximately HK\$4.36 million for the six months ended 30 June 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\$32.60 million and HK\$3.61 million for the six months ended 30 June 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' ground source energy collection equipment so as to optimizing/improving of the customers' ground source energy utilisation system, thereby enhancing the promotional effect, which attributable to the increase in selling and distribution expenses during the Review Period. Besides the initial investment in market development lead to a significant increase in selling and distribution expenses.

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\$3.14 million in the corresponding period last year to HK\$11.48 million in the current period. Administrative expenses amounted to approximately HK\$44.16 million and approximately HK\$39.01 million for the Review Period and the six months ended 30 June 2012 respectively. The increase was mainly due to the increase in the staff costs and research and development costs. The Board believes that the Group's continuous expansion depends upon

our ability to employ and retain management and technical personnel with the ability to design, utilise, and enhance our services and products. In addition, the Group disposed of 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 amounted to approximately HK\$2.59 million for the Review Period as compared with HK\$1.75 million for the last corresponding period. The finance costs was the imputed interest expenses of receipt in advance on the rental income.

Profit attributable to owners of the Company was approximately HK\$29.13 million for the six months ended 30 June 2013 and approximately HK\$7.64 million for the corresponding period last year.

Order Book

As at 30 June 2013, the Group has contracts on hand of approximately HK\$402.13 million.

Investment Properties

The Group's investment properties as at 30 June 2013 were valued at HK\$299.83 million. This resulted in an increase in fair value of investment properties of approximately HK\$7.76 million (2012: HK\$4.29 million) which was recognised directly in income statement for the Review Period.

Liquidity, Financial Resources and Capital Structure

Net current assets of the Group as at 30 June 2013 was approximately HK\$521.06 million (31 December 2012: approximately HK\$600.94 million). As at 30 June 2013, the Group had cash and bank balances of approximately HK\$114.28 million (31 December 2012: approximately HK\$156.46 million). Cash shown on our statement of financial position include funds available for general corporate purposes.

Non-controlling interest amounted to approximately HK\$40.68 million which mainly represents the interest attributable to non-controlling shareholders of the Group's subsidiaries in the PRC.

Charges on Group's asset

As at 30 June 2013, no Group's asset has been charged.

Gearing Ratio

The gearing ratio of the Group was maintained at 0% as at 30 June 2013 (31 December 2012: 0%).

Foreign Exchange Exposure

The Group continues to adopt a conservative treasury policy with all bank deposits being kept in either Hong Kong dollars, or in local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Contingent Liabilities

As at 30 June 2013, the Group had no material contingent liabilities (31 December 2012: Nil).

Employees

As at 30 June 2013, the Group has approximately 500 employees in total (31 December 2012: approximately 490). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

BUSINESS REVIEW AND PROSPECTS

The Group focuses on the development and utilization of shallow ground source energy as the alternative heating (cooling) energy for buildings, which, as an important part of the energy conservation and environmental protection mission, have received increasing attention from the society community and great supports from the state, local governments and users at all levels. Having been upgraded to a national strategy, energy conservation and environmental protection have become a vital momentum for the transformation of developmental mode and the acceleration of restructuring which will propel the industrial transformation and upgrading.

Ever Source Science and Technology Development Group Ltd. ("HY"), the technological and industrial headquarters of the Group, has made constant breakthroughs and innovations in research and promotion of the professional technologies for using shallow ground source energy as the alternative heating (cooling) energy for buildings, which have achieved remarkable results. The Technical Code for Single Well of Geothermal Energy Collection with Circulation Heat Exchange, a set of local standards for Beijing released by Beijing Municipal Administration of Quality and Technology Supervision (北京市質量技術監督局) and administrated and implemented by Beijing Water Authority (北京水務局) which is jointly drafted by Beijing Association to Promote Energy Conservation and Environmental Protection (北京節能環保促進會), China Energy Conservation and Environmental Protection Group (中國節能環保集團公司) and Ever Source Science and Technology Development Group Ltd., became effective on 1 April 2013. The implementation of the standards has laid the foundation for the industrialization development of the third type^{Note} of ground source energy collection technology, the only one of its kind in the world and an original innovative technology developed by China. By adopting the single-

well circulation heat exchange technology, sufficient zero pollution energy will be collected in an efficient, environment-friendly and land-conserving manner under any geological conditions and be provided to heat pump products so as to provide heating (cooling) to buildings. The emerging industry of shallow ground source energy as the alternative heating (cooling) energy to buildings is an integrated industry of heating and cooling, which is evolved from the traditional separate industries of heating and cooling. The implementation of the Technical Code allows enormous room for the vast development of this emerging industry.

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 exploration and collection of ground source energy and installation of electrical and mechanical equipment. Under the business expansion model featuring “specialised corporate operation and group-wise regional development” established by the Board, the Group constantly enhanced the specialization of its subsidiaries in various industries and continuously expanded regional coverage by catering to the features of different climatic regions.

During the Review Period, the Group made certain achievements in business expansion. The Group won the bid for the ground source energy heat pump system project for a commercial district with an area of 150,000 sq.m. in Taiyuan, Shanxi Province, which will beat the height of the existing domestic buildings applied with ground source energy heat pump system and become the highest engineering project that uses ground source energy for heating (cooling) in buildings. In addition, the Group entered into patent licence agreements with large domestic property developers. Through close cooperation with property developers, the Group accelerated the promotion of ground source energy application technology and broadened the income sources of proprietary technology. Meanwhile, under the sales and purchase agreement for products and services entered into by the Group and China Energy Conservation and Environmental Protection Group, the two parties proactively pushed ahead mutual business cooperation. A self-built ground source energy for heating demonstration project of the Group in Beijing has been completed and put in operation.

It is believed that with the relentless efforts of the operating and managing teams, the operation results will record further improvement.

Note: Besides utilization of natural energy derived from rivers, lakes and oceans and recovery of residual heat to provide low-grade energy for heat pump products, there are three ways generally applied in the international community to collect ground source energy: 1. pump well (efficient, but may cause water loss, pollution and potential geological hazards); 2. buried pipe (environment-friendly, but inefficient and requires large areas of land); and 3. single-well circulation heat exchange (efficient, environment-friendly and land-conserving).

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 six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited) (Restated)
Revenue		95,257	59,834	133,782	161,564
Cost of sales		(31,975)	(33,566)	(59,593)	(87,615)
Gross profit		63,282	26,268	74,189	73,949
Other income		3,301	2,313	4,363	7,251
Selling and distribution expenses		(1,683)	(1,633)	(32,602)	(3,607)
Administrative expenses		(24,218)	(17,751)	(44,162)	(39,005)
Profit from operations		40,682	9,197	1,788	38,588
Gain on disposal of a portion of investment properties		–	–	51,573	–
Fair value changes on investment properties		7,757	–	7,757	4,294
Share of results of associates		276	461	79	(6,361)
Share-based payments		(4,770)	(1,568)	(11,477)	(3,136)
Finance costs		(1,292)	(820)	(2,593)	(1,745)
Profit before tax		42,653	7,270	47,127	31,640
Income tax expense	4	(16,681)	(3,395)	(18,405)	(19,187)
Profit for the period	5	25,972	3,875	28,722	12,453

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2013

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited) (Restated)
Other comprehensive income (expense):				
Gain on leasehold land and building revaluation	-	-	-	477
Fair value change on the 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	10,211	(8,029)	14,386	(8,622)
Total other comprehensive income (expense) for the period	10,211	(8,029)	14,386	(5,696)
Total comprehensive income (expense) for the period	36,183	(4,154)	43,108	6,757

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2013

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited) (Restated)
Profit (loss) attributable to:				
Owners of the Company	27,626	2,818	29,132	7,642
Non-controlling interests	(1,654)	1,057	(410)	4,811
	25,972	3,875	28,722	12,453
Total comprehensive income (expense) attributable to:				
Owners of the Company	36,615	(4,115)	42,104	2,968
Non-controlling interests	(432)	(39)	1,004	3,789
	36,183	(4,154)	43,108	6,757
Earnings per share	7			
Basic (HK cents)	0.95	0.140	1.00	0.370
Diluted (HK cents)	0.95	0.140	1.00	0.370

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

		30 June 2013	31 December 2012
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	8	44,285	38,653
Investment properties	8	299,834	245,692
Deposit paid for acquisition of land use rights		238,500	238,500
Goodwill		445,850	445,850
Interests in associates		62,011	61,334
Deposit paid for formation of a joint venture		37,914	–
Available-for-sale investments		51,058	498
Deferred tax assets		21,690	21,876
		1,201,142	1,052,403
Current assets			
Inventories		22,573	23,899
Properties held for sales under development		94,538	89,571
Trade and retention receivables	9	88,608	87,060
Prepayments, deposits and other receivables		112,662	73,878
Consideration receivable		–	53,486
Amounts due from customers for contract work		459,105	448,513
Amount due from an associate		6,788	4,237
Held-for-trading financial assets		36	45
Cash held at non-bank financial institutions		1,262	1,262
Bank balances and cash		114,279	156,459
		899,851	938,410

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2013

	Notes	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Current liabilities			
Trade payables	10	123,247	126,818
Accrued liabilities, deposits received and other payables		113,593	100,284
Amounts due to customers for contract work		11,811	12,121
Amounts due to non-controlling shareholders		14,338	16,117
Amounts due to associates		26,088	20,512
Dividend payable		11,611	–
Tax payable		78,108	61,619
		<hr/> 378,796	<hr/> 337,471
Net current assets		<hr/> 521,055	<hr/> 600,939
Total assets less current liabilities		<hr/> 1,722,197	<hr/> 1,653,342
Non-current liabilities			
Receipt in advance		90,495	67,308
Deferred income		7,582	7,463
Deferred tax liabilities		41,328	38,753
		<hr/> 139,405	<hr/> 113,524
Net assets		<hr/> 1,582,792	<hr/> 1,539,818

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2013

	<i>Notes</i>	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Capital and reserves			
Share capital	11	226,053	226,053
Reserves		1,316,055	1,274,085
<hr/>			
Equity attributable to owners of the Company		1,542,108	1,500,138
Non-controlling interests		40,684	39,680
<hr/>			
Total equity		1,582,792	1,539,818
<hr/>			

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Assets revaluation reserve HK\$'000	Contributed surplus HK\$'000 (Note c)	Special reserve HK\$'000 (Note d)	Capital reserve HK\$'000 (Note e)	Share-based payment reserve HK\$'000	Exchange translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
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 (unaudited, 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	-	-	-	-	-	-	-	-	-	7,642	7,642	4,811	12,453
Other comprehensive income (expenses) for the period:													
Gain on leasehold land and building revaluation	-	-	-	477	-	-	-	-	-	-	477	-	477
Fair value change on the 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	-	-	-	-	-	-	-	-	(7,600)	-	(7,600)	(1,022)	(8,622)
Total other comprehensive income (expense) for the period	-	-	-	2,926	-	-	-	-	(7,600)	-	(4,674)	(1,022)	(5,696)
Total comprehensive income (expense) for the period	-	-	-	2,926	-	-	-	-	(7,600)	7,642	2,968	3,789	6,757
Recognition of share-based payment expenses	-	-	-	-	-	-	-	3,136	-	-	3,136	-	3,136
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	776	776
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	3,494	3,494
Lapse of share option	-	-	-	-	-	-	-	(1,156)	-	1,156	-	-	-
At 30 June 2012 (Unaudited)	161,092	624,541	2,211	24,488	154,381	(1,694)	32,235	31,273	28,807	40,252	1,097,586	39,129	1,136,715

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 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
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'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	-	-	-	-	-	-	-	-	-	29,132	29,132	(410)	28,722
Other comprehensive income for the period:													
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	12,972	-	12,972	1,414	14,386
Total other comprehensive income for the period	-	-	-	-	-	-	-	-	12,972	-	12,972	1,414	14,386
Total comprehensive income for the period	-	-	-	-	-	-	-	-	12,972	29,132	42,104	1,004	43,108
Recognition of share-based payment expenses	-	-	-	-	-	-	-	11,477	-	-	11,477	-	11,477
Dividends recognised as distribution (note 6)	-	(11,611)	-	-	-	-	-	-	-	-	(11,611)	-	(11,611)
Appropriations	-	-	9	-	-	-	-	-	-	(9)	-	-	-
At 30 June 2013 (Unaudited)	226,053	891,630	2,220	24,162	154,381	(1,694)	32,235	44,673	55,940	112,508	1,542,108	40,684	1,582,792

Notes:

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	85,156	14,207
Net cash outflow from investing activities	(131,897)	(31,499)
Net cash inflow (outflow) from financing activities	3,013	(8,236)
Decrease in cash and cash equivalents	43,728	(25,528)
Effect of foreign exchange rates changes	1,548	(2,657)
Cash and cash equivalents at the beginning of the period	156,459	143,309
Cash and cash equivalents at end of the period	114,279	115,124

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Charter 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 Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical costs basis except for certain financial instruments and investment properties, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the nine months ended 31 December 2012.

3. SEGMENT INFORMATION

The Group’s reportable and operating segments, based on information reported to the chief operating decision maker, being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment are as follows:

- (a) Shallow ground source energy utilisation segment – provision, installation and maintenance of shallow ground source energy utilisation system;
- (b) Securities investments and trading segment – trading of investment securities; and
- (c) Properties investments and development segment – investment in properties for its potential rental income and sales;

No operating segment identified by the chief operating decision maker have been aggregated in arriving at the reportable segment of the Group.

3. SEGMENT INFORMATION *(Continued)*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Shallow ground source energy utilisation		Securities investment and trading		Properties investment and development		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Revenue								
External customers	129,187	158,632	-	-	4,595	2,932	133,782	161,564
Segment results	12,130	56,717	(6,526)	(4,540)	60,414	5,481	66,018	57,658
Share of results of associates							79	(6,361)
Unallocated other income							2,335	1,008
Unallocated expenses							(21,305)	(20,665)
Profit before tax							47,127	31,640

3. SEGMENT INFORMATION *(Continued)*

(b) Segment assets

The following is an analysis of the Group's assets by reportable and operating segment:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Shallow ground source energy utilisation	1,370,884	1,146,007
Securities investment and trading	8,304	9,646
Properties investments and development	513,066	591,254
Total segment assets	1,892,254	1,746,907
Unallocated corporate assets	208,739	243,906
Consolidated total assets	2,100,993	1,990,813

4. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June 2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	30 June 2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited) (Restated)
PRC enterprise income tax	14,741	3,395	16,465	15,857
Deferred tax	1,940	–	1,940	3,330
	16,681	3,395	18,405	19,187

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 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 six months ended 30 June 2013.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
				(Restated)
Cost of inventories sold	31,324	33,566	57,796	87,615
Staff costs (including directors' emolument)	9,765	9,578	23,056	16,753
Depreciation and amortisation	964	1,109	2,317	3,315
Minimum lease payments under operating leases in respect of land and buildings	3,201	1,766	6,278	4,624

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend (2012: nil) for the six months ended 30 June 2013.

	Six months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend recognised as distribution during the period (<i>note</i>)	11,611	–

Note: On 10 July 2013, a dividend of HK0.4 cents per share (2012: nil) was paid to the shareholders as the final dividend for the nine months ended 31 December 2012.

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		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
				(Restated)
Earnings				
Earnings for the period attributable to owners of the Company and for the purpose of basic earnings and diluted earnings per share	27,626	2,818	29,132	7,642
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,902,827	2,065,307	2,902,827	2,065,307
Effect of dilutive potential ordinary shares:				
Share options (<i>note</i>)	3,634	18,546	1,580	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,906,461	2,083,853	2,904,407	2,065,307

Note: The calculation of diluted earnings per share for the six months ended 30 June 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 six months ended 30 June 2012.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the Review Period, the Group incurred approximately HK\$7,180,000 (2012: HK\$2,660,000) on acquisition of property, plant and equipment.

During the six months ended 30 June 2012, the construction in progress of approximately HK\$11,440,000 were transferred to investment properties.

The Group's investment properties as at 30 June 2013 were fair valued by Peak Vision Appraisals Limited, an independent professionally qualified valuer not connected to the Group. The resulting increase in fair value of investment properties of approximately HK\$7,760,000 (2012: HK\$4,290,000) has been recognised directly in the income statement for the Review Period.

9. TRADE AND RETENTION RECEIVABLES

	30 June 2013 HK\$ '000 (Unaudited)	31 December 2012 HK\$ '000 (Audited)
Trade receivables	52,105	59,550
Retention receivables	45,200	36,070
Less: allowance for doubtful debts	(8,697)	(8,560)
	88,608	87,060

The Group generally grants credit period of 30 to 180 days to its customer. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon the customers' request and normally within 365 days. The Group does not hold any collateral over these balances. The retention receivables credit period were usually one to two years, and different on case by case basis. The following aging analysis of trade receivables is presented based on the invoice date at the end of the reporting period.

9. TRADE AND RETENTION RECEIVABLES *(Continued)*

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Within 90 days	3,863	6,124
91 to 180 days	999	2,910
181 to 365 days	8,225	11,321
Over 365 days	30,321	30,635
	<hr/>	
	43,408	50,990

10. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Within 90 days	4,506	12,406
91 to 180 days	4,583	7,105
181 to 365 days	36,735	26,686
Over 365 days	77,423	80,621
	<hr/>	
	123,247	126,818

11. SHARE CAPITAL

	Number of shares		Share capital		Share capital	
	US\$0.01 each		Share capital		Share capital	
	30 June	31 December	30 June	31 December	30 June	31 December
	2013	2012	2013	2012	2013	2012
	'000	'000	US\$'000	US\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Ordinary shares						
Authorised:						
At beginning of the period/year and						
at end of the period/year	16,000,000	16,000,000	160,000	160,000	1,248,000	1,248,000
Issued and fully paid:						
At beginning of the period/year	2,902,827	2,065,307	29,028	20,653	226,053	161,092
Subscription of shares (Note a)	-	850,000	-	8,500	-	65,935
Repurchase of shares (Note b)	-	(12,480)	-	(125)	-	(974)
At end of the period/year	2,902,827	2,902,827	29,028	29,028	226,053	226,053

Notes:

- (a) The subscription of shares by China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited was completed on 20 August 2012. A total of 850,000,000 ordinary shares of US\$0.01 each were issued at subscription price of HK\$0.41 per share for cash totaling HK\$348,500,000, representing approximately 29.16% of the issued share capital of the Company as at 20 August 2012 as enlarged by the subscription, were issued to China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited. The excess of the issue price over the par value of the shares, net of share issued expenses of HK\$100,000, were credited to the share premium account of the Company. All the subscription shares rank pari passu with the existing shares. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 13 April 2012, 5 June 2012 and 20 August 2012 respectively.

11. SHARE CAPITAL (Continued)

Notes: (Continued)

- (b) During the nine months ended 31 December 2012, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of Purchase	No. of ordinary shares of US0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
September 2012	10,584,000	0.400	0.360	4,017
October 2012	1,896,000	0.380	0.375	722

The above shares were cancelled upon repurchase.

12. COMMITMENTS

i) Operating lease

The Group as lessor

The Group sub-leases part of the building and leases the investment properties under construction or development under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. At the end of reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2013 HK\$'000 (Unaudited)	31 December 2012 HK\$'000 (Audited)
Within one year	43,182	42,566
In the second to fifth years, inclusive	38,291	37,778
Over five years	212,659	209,300
	294,132	289,644

12. COMMITMENTS *(Continued)*

i) Operating lease *(Continued)*

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2013 HK\$ '000 (Unaudited)	31 December 2012 HK\$ '000 (Audited)
Within one year	6,319	3,044
In the second to fifth years, inclusive	8,471	3,570
Over five years	3,293	3,271
	18,083	9,885

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff quarters. Leases are negotiated for an average term ranging from one to twenty years. No provision for contingent rent was established in the leases.

ii) Others

	30 June 2013 HK\$ '000 (Unaudited)	31 December 2012 HK\$ '000 (Audited)
Commitments contracted but not provided in the condensed consolidated financial statements in respect of:		
– Capital injection in an associate	26,540	26,121
– Investment properties under construction	48,886	62,086
– Acquisition of property, plant and equipment	379	373
	75,805	88,580

13. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees and business associates of the Group. Details of the share options outstanding during the Review Period are as follows:

	Number of share options
Outstanding at 1 January 2013 and 30 June 2013	355,992,000

14. DEREGISTRATION OF A SUBSIDIARY

On 27 April 2013, the Group's non wholly-owned subsidiary, 瀋陽恒有源科技有限公司 was deregistered. The assets (liabilities) of this deregistered subsidiary as at the date of deregistration were insignificant. This deregistered subsidiary has no material effect on the Group's turnover, results and cash flows for the Review Period.

15. RELATED PARTY TRANSACTIONS

(a) During the periods ended 30 June 2013 and 2012, the Group entered into the following transactions:

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease payments paid to				
a non-controlling shareholder	1,031	737	2,061	1,475
Rental income from an associate	80	631	160	2,304
Purchase from an associate	1,640	586	1,640	5,203
	2,751	1,954	3,861	8,982

15. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Remuneration of key management personnel

The remuneration of directors and other members of key management during the periods ended 30 June 2013 and 2012 was as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short term benefits	1,622	1,690	3,742	3,444
Retirement benefits scheme contributions	15	9	30	19
	1,637	1,699	3,772	3,463

16. EVENTS AFTER THE REPORTING PERIOD

On 8 July 2013, Ever Source Science and Technology Development Group Limited ("HY"), a subsidiary of the Company, and China Energy Conservation and Environmental Protection New Material Investment Company Limited ("New Material Investment Company") and Fujian China Energy Conservation and Environmental Protection Quancheng Investment Company Limited ("Quancheng Investment"), connected persons to the Group, have entered into a termination agreement (the "Termination Agreement") by which all parties mutually agreed to terminate the capital increment agreement (the "Capital Increment Agreement").

16. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

Pursuant to the Termination Agreement, within three days upon signing of the Termination Agreement, Quancheng Investment shall refund to HYY the consideration (“Consideration”) of RMB40,000,000 paid by HYY pursuant to the Capital Increment Agreement signed on 4 February 2013. Quancheng Investment shall also pay a fund possession charge at an annual rate of 10% for the actual time of keeping the Consideration, which will be calculated from the date of payment of the Consideration by HYY to the date of the signing of the Termination Agreement. If Quancheng Investment fails to fully refund the Consideration and pay the relevant fund possession charge within the specified time as agreed in the Termination Agreement, New Material Company shall pay HYY the liquidated damages for the amounts payable at a daily rate of 0.05% until all the Consideration and the fund possession charge is fully settled. Pursuant to the Termination Agreement, New Material Company has joint and several obligations for the refund of the Consideration and payment of fund possession charge and liquidated damages (if any). Upon full refund of the Consideration of RMB40,000,000 and full payment of the relevant fund possession charge to HYY, the fulfillment by HYY and New Material Company under the Capital Increment Agreement shall be completely terminated and HYY and New Material Company shall be released and discharged from all rights, obligations, claims and debts arising from the Capital Increment Agreement. Details of the termination are set out in the announcement of the Company dated 8 July 2013.

As at the date of this report, the Group had fully received the Consideration and the related fund possession charge.

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

As at 30 June 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		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of 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.

2. 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 the SFO, Mr. Xu is deemed to be interested in 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 30 June 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 30 June 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 30 June 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 30 June 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	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and capacity		Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
		Interest in shares					
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	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 30 June 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 30 June 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 30 June 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 30 June 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.

CORPORATE GOVERNANCE CODE

During the Review Period, the Company has complied with the code provisions of the Corporate Governance Code (the “Code”) set out in Appendix 15 of the GEM Listing Rules, except for the deviations as follows:

Under code provision A.6.7 of the Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

Under code provision E.1.2 of the Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

Mr. Jia Wenzeng, an independent non-executive Director and the chairman of the Audit Committee, and Mr. Hu Zhaoguang, an independent non-executive Director and the chairman of the Remuneration Committee, did not attend the annual general meeting held on 13 June 2013 due to their engagement in other business.

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. Hu Zhaoguang and Mr. Wu Desheng. 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, 9 August 2013