



**中國地能產業集團有限公司**

**CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 8128

*Third 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 Industry Group 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\$234.79 million for the nine months ended 30 September 2013 (the "Review Period").

Net profit after tax of the Group for the Review Period amounted to approximately HK\$48.03 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 Industry Group 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 nine months ended 30 September 2012.

|   | Three Months<br>ended 30 September |                                 | Nine months<br>ended 30 September |   |
|---|------------------------------------|---------------------------------|-----------------------------------|---|
|   | 2013<br>HK\$'000<br>(Unaudited)    | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| Revenue   |                                    |                                 |                                   |   |
| – Shallow ground source energy<br>utilisation   | 98,693                             | 75,227                          | 227,880                           | 233,859                                       |
| – Rental income                                 | 2,319                              | 2,527                           | 6,914                             | 5,459   |
| <b>Total revenue</b>                            | <b>101,012</b>                     | <b>77,754</b>                   | <b>234,794</b>                    | <b>239,318</b>                                |
| <b>Profit for the period</b>                    | <b>19,310</b>                      | <b>29,282</b>                   | <b>48,032</b>                     | <b>41,735</b>                                 |
| Profit attributable to owners of<br>the Company | 19,536                             | 30,269                          | 48,668                            | 37,911  |

During the Review Period, the Group's revenue amounted to approximately HK\$227.88 million which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$233.86 million for the corresponding period last year. The revenue decreased by approximately HK\$5.98 million as compared with that of corresponding period last year which 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 38.1% in the last corresponding period to 59.7% in the current period. It was mainly attributable to the fact that the Group secured some technical support and consultation agreements with large contract sum in the second and third quarters. These contracts have higher gross profit margins which lead to the gross profit margin increased during the Review Period.

Other income decreased from approximately HK\$19.90 million in the corresponding period last year to approximately HK\$4.96 million for the nine months ended 30 September 2013. The decrease was mainly attributable to the one-off recognition of the imputed interest income on receipt in advance and the government grant in the corresponding period last year.

Selling and distribution expenses amounted to approximately HK\$33.26 million and HK\$8.85 million for the nine months ended 30 September 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' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow 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 leads 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 which leads to the share-based payment increased from approximately HK\$4.40 million in the corresponding period last year to

approximately HK\$16.03 million in the current period. Administrative expenses amounted to approximately HK\$66.95 million and approximately HK\$58.84 million for the Review Period and the nine months ended 30 September 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\$4.22 million for the Review Period as compared with approximately HK\$2.61 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\$48.67 million for the nine months ended 30 September 2013 and approximately HK\$37.91 million for the corresponding period last year.

## **BUSINESS REVIEW AND PROSPECTS**

During the Review Period, the Company changed its name from "China Ground Source Energy Limited 中國地能有限公司" to "China Ground Source Energy Industry Group Limited 中國地能產業集團有限公司", to highlight the characteristics of the integrated shallow ground source heating and cooling energy emerging industry, and the development model based on industrialization of original innovative technologies to support this emerging industry.

Ever Source Science and Technology Development Group Ltd. ("HY"), the technological and industrial headquarters of the Group, has committed to the scientific research and the promotion of the technology for using shallow ground source energy as the alternative heating (cooling) energy for buildings, and has made constant breakthroughs and innovations in specialized technology services, which have achieved remarkable results. The significant increase in income from proprietary technology services and from the management of energy contracts is in line with the business model and planning of the Group's development.

By leveraging the HYY ground source energy heat pump environmental system which is based on the original innovative “HYY single well circulation heat exchange collection technology” and features integrated heating and cooling energy, the Group aims to promote shallow ground source energy as the alternative heating energy for buildings, and the promotion of alternative energy in regional markets is supported by the integrated shallow ground source heating and cooling energy emerging industrial park. The Group owns a full-stop industrial chain integrating technology service, design consultancy, equipment manufacturing, system engineering, management of energy contract and construction of distributed shallow ground source energy as source of cooling/heating station into one operating system, enabling it to provide complete energy system solutions of shallow ground source heating (cooling) energy for various types of buildings in different regions.

The completion of the construction of the Integrated Shallow Ground Source Heating and Cooling Energy Emerging Industrial Park in Beijing within two years and the operational success of the industrial park achieved so far have provided strong support for the regional industrial base to promote the regional shallow ground source energy as alternative heating energy, demonstrating that such integrated shallow ground source heating and cooling energy emerging industry has formulated its own unique mode for healthy development.

The Group will continue to move forward along this healthy development path of the integrated shallow ground source heating and cooling energy emerging industry, and will spare no effort in promoting the industrial development of original innovative technologies and widespread utilization of the shallow ground source energy as alternative heating energy.

## FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Ground Source Energy Industry Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2013 together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2013

|   | Notes | Three Months<br>ended 30 September |                                 | Nine months<br>ended 30 September |   |
|---|-------|------------------------------------|---------------------------------|-----------------------------------|---|
|   |       | 2013<br>HK\$'000<br>(Unaudited)    | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| Revenue   | 2     | 101,012                            | 77,754                          | 234,794                           | 239,318                                       |
| Cost of sales   |       | (35,028)                           | (60,550)                        | (94,621)                          | (148,165)                                     |
| Gross profit  |       | 65,984                             | 17,204                          | 140,173                           | 91,153  |
| Other income  |       | 601                                | 12,644                          | 4,964                             | 19,895  |
| Selling and distribution expenses                         |       | (654)                              | (5,247)                         | (33,256)                          | (8,854)                                       |
| Administrative expenses                                   |       | (22,786)                           | (19,836)                        | (66,948)                          | (58,841)                                      |
| Profit from operations                                    |       | 43,145                             | 4,765                           | 44,933                            | 43,353  |
| Gain on disposal of a portion of<br>investment properties |       | –                                  | –                               | 51,573                            | –   |
| Change in fair value of investment<br>properties          |       | –                                  | 40,347                          | 7,757                             | 44,641  |
| Share of results of associates                            |       | (2,418)                            | (577)                           | (2,339)                           | (6,938)                                       |
| Share-based payments                                      |       | (4,550)                            | (1,265)                         | (16,027)                          | (4,401)                                       |
| Finance costs   |       | (1,623)                            | (863)                           | (4,216)                           | (2,608)                                       |
| Profit before tax   |       | 34,554                             | 42,407                          | 81,681                            | 74,047  |
| Income tax expense  | 3     | (15,244)                           | (13,125)                        | (33,649)                          | (32,312)                                      |
| Profit for the period                                     | 4     | 19,310                             | 29,282                          | 48,032                            | 41,735  |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the nine months ended 30 September 2013

| Notes   | Three Months<br>ended 30 September |                                 | Nine months<br>ended 30 September |   |
|---|------------------------------------|---------------------------------|-----------------------------------|---|
|   | 2013<br>HK\$'000<br>(Unaudited)    | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(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   | 2,307                              | 8,051                           | 16,693                            | (571)   |
| Reclassification adjustments for the cumulative loss transferred to profit or loss:   |                                    |                                 |                                   |   |
| - Release of exchange translation reserve upon deregistration of subsidiaries   | -                                  | 98                              | -                                 | 98  |
| <b>Total other comprehensive income for the period</b>  | <b>2,307</b>                       | <b>8,149</b>                    | <b>16,693</b>                     | <b>2,453</b>                                  |
| <b>Total comprehensive income for the period</b>  | <b>21,617</b>                      | <b>37,431</b>                   | <b>64,725</b>                     | <b>44,188</b>                                 |



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

For the nine months ended 30 September 2013

|   | Three Months<br>ended 30 September       |                                 | Nine months<br>ended 30 September |   |
|---|--|---------------------------------|-----------------------------------|---|
|   | Notes<br>2013<br>HK\$'000<br>(Unaudited) | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| Profit (loss) attributable to:                            |  |                                 |                                   |   |
| Owners of the Company                                     | 19,536                                   | 30,269                          | 48,668                            | 37,911  |
| Non-controlling interests                                 | (226)                                    | (987)                           | (636)                             | 3,824   |
|   | <b>19,310</b>                            | <b>29,282</b>                   | <b>48,032</b>                     | <b>41,735</b>                                 |
| Total comprehensive income<br>(expenses) attributable to: |  |                                 |                                   |   |
| Owners of the Company                                     | 21,747                                   | 38,044                          | 63,851                            | 41,012  |
| Non-controlling interests                                 | (130)                                    | (613)                           | 874                               | 3,176   |
|   | <b>21,617</b>                            | <b>37,431</b>                   | <b>64,725</b>                     | <b>44,188</b>                                 |
| Earnings per share  | 6  |                                 |                                   |   |
| Basic (HK cents)  | 0.67                                     | 1.34                            | 1.68                              | 1.68  |
| Diluted (HK cents)  | 0.67                                     | 1.34                            | 1.67                              | 1.68  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the nine months ended 30 September 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 (“HKFRS”), 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 nine months ended 31 December 2012.

The Group has adopted new and amended standards and interpretations of HKFRS 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 third quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

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

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

## 2. REVENUE

Turnover represents the net amounts received and receivable for goods sold to customers, net of allowance for returns, trade discounts and business tax where applicable, and services rendered.

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

|   | Three Months<br>ended 30 September |                                 | Nine months<br>ended 30 September |   |
|---|------------------------------------|---------------------------------|-----------------------------------|---|
|   | 2013<br>HK\$'000<br>(Unaudited)    | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| Shallow ground source energy<br>utilisation | 98,693                             | 75,227                          | 227,880                           | 233,859                                       |
| Rental income                               | 2,319                              | 2,527                           | 6,914                             | 5,459   |
|   | <b>101,012</b>                     | <b>77,754</b>                   | <b>234,794</b>                    | <b>239,318</b>                                |

## 3. INCOME TAX EXPENSE

|                           | Three Months<br>ended 30 September |                                 | Nine months<br>ended 30 September |   |
|---------------------------|------------------------------------|---------------------------------|-----------------------------------|---|
|                           | 2013<br>HK\$'000<br>(Unaudited)    | 2012<br>HK\$'000<br>(Unaudited) | 2013<br>HK\$'000<br>(Unaudited)   | 2012<br>HK\$'000<br>(Unaudited)<br>(Restated) |
| PRC enterprise income tax | 15,244                             | 7,581                           | 31,709                            | 23,438  |
| Deferred tax              | –                                  | 5,544                           | 1,940                             | 8,874   |
|                           | <b>15,244</b>                      | <b>13,125</b>                   | <b>33,649</b>                     | <b>32,312</b>                                 |

#### 4. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

|  | Three Months       |             | Nine months        |             |
|--|--------------------|-------------|--------------------|-------------|
|  | ended 30 September |             | ended 30 September |             |
|  | 2013               | 2012        | 2013               | 2012        |
|  | HK\$'000           | HK\$'000    | HK\$'000           | HK\$'000    |
|  | (Unaudited)        | (Unaudited) | (Unaudited)        | (Unaudited) |
|  |                    |             |                    | (Restated)  |
| Cost of sales  | 34,395             | 60,550      | 92,191             | 148,165     |
| Staff costs (including directors' emolument)                                   | 12,454             | 9,230       | 35,510             | 25,983      |
| Depreciation and amortisation  | 1,289              | 1,367       | 3,606              | 4,682       |
| Minimum lease payments under operating leases in respect of land and buildings | 5,468              | 2,657       | 11,746             | 7,281       |
| Gain on deregistration of subsidiaries   | –                  | 176         | –                  | 176         |

#### 5. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of an interim dividend for the nine months ended 30 September 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       |             | Nine months        |             |
|--|--------------------|-------------|--------------------|-------------|
|  | ended 30 September |             | ended 30 September |             |
|  | 2013               | 2012        | 2013               | 2012        |
|  | HK\$ '000          | HK\$ '000   | HK\$ '000          | HK\$ '000   |
|  | (Unaudited)        | (Unaudited) | (Unaudited)        | (Unaudited) |
|  |                    |             |                    | (Restated)  |
| <b>Earnings</b>  |                    |             |                    |             |
| Earnings for the purpose of basic earnings and diluted earnings per share                | 19,536             | 30,269      | 48,668             | 37,911      |
| <b>Number of shares</b>  | '000               | '000        | '000               | '000        |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | 2,902,827          | 2,259,430   | 2,902,827          | 2,259,430   |
| Effect of dilutive potential ordinary shares:  |                    |             |                    |             |
| Share options (note)   | 17,482             | –           | 14,175             | –           |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 2,920,309          | 2,259,430   | 2,917,002          | 2,259,430   |

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

*Note:* The calculation of diluted earnings per share for the nine months ended 30 September 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 nine months ended 30 September 2012.

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

For the nine months ended 30 September 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<br>(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<br>(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   | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | -                            | 37,911            | 37,911    | 3,824                     | 41,735       |
| 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   | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | 77                           | -                 | 77        | (648)                     | (571)        |
| Reclassification adjustments for the cumulative loss transferred to profit or loss:   |                                       |               |                   |                            |                     |                 |                 |                             |                              |                   |           |                           |              |
| - release of exchange translation reserve upon deregistration of subsidiaries   | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | 98                           | -                 | 98        | -                         | 98           |
| Total other comprehensive income (expense) for the period   | -                                     | -             | -                 | 2,926                      | -                   | -               | -               | -                           | 175                          | -                 | 3,101     | (648)                     | 2,453        |
| Total comprehensive income for the period   | -                                     | -             | -                 | 2,926                      | -                   | -               | -               | -                           | 175                          | 37,911            | 41,012    | 3,176                     | 44,188       |

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

For the nine months ended 30 September 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)        |                 |                             |                              |                   |           |                           |              |
| Deregistration of subsidiaries              | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | -         | 773                       | 773          |
| Recognition of share-based payment expenses | -                                     | -             | -                 | -                          | -                   | -               | -               | 4,401                       | -                            | -                 | 4,401     | -                         | 4,401        |
| Share repurchased and cancelled (note f)    | (826)                                 | (3,191)       | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | (4,017)   | -                         | (4,017)      |
| Acquisition of subsidiaries                 | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | -         | 3,494                     | 3,494        |
| Lapse of share option                       | -                                     | -             | -                 | -                          | -                   | -               | -               | (1,156)                     | -                            | 1,156             | -         | -                         | -            |
| Issue of subscription shares (note g)       | 65,935                                | 282,565       | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | 348,500   | -                         | 348,500      |
| Subscription shares issue expenses (note g) | -                                     | (100)         | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | (100)     | -                         | (100)        |
| At 30 September 2012 (unaudited)            | 226,201                               | 903,815       | 2,211             | 24,488                     | 154,381             | (1,694)         | 32,235          | 32,538                      | 36,582                       | 70,521            | 1,481,278 | 38,513                    | 1,519,791    |

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

For the nine months ended 30 September 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 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   | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | -                            | 48,668            | 48,668    | (636)                     | 48,032       |
| Other comprehensive income for the period:                        |                                       |               |                   |                            |                     |                 |                 |                             |                              |                   |           |                           |              |
| Exchange differences arising on translation of foreign operations | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | 15,183                       | -                 | 15,183    | 1,510                     | 16,693       |
| Total other comprehensive income for the period                   | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | 15,183                       | -                 | 15,183    | 1,510                     | 16,693       |
| Total comprehensive income for the period                         | -                                     | -             | -                 | -                          | -                   | -               | -               | -                           | 15,183                       | 48,668            | 63,851    | 874                       | 64,725       |
| Recognition of share-based payment expenses                       | -                                     | -             | -                 | -                          | -                   | -               | -               | 16,027                      | -                            | -                 | 16,027    | -                         | 16,027       |
| Dividends recognised as distribution                              | -                                     | (11,611)      | -                 | -                          | -                   | -               | -               | -                           | -                            | -                 | (11,611)  | -                         | (11,611)     |
| Appropriations  | -                                     | -             | 9                 | -                          | -                   | -               | -               | -                           | -                            | (9)               | -         | -                         | -            |
| At 30 September 2013 (unaudited)                                  | 226,053                               | 891,630       | 2,220             | 24,162                     | 154,381             | (1,694)         | 32,235          | 49,223                      | 58,151                       | 132,044           | 1,568,405 | 40,554                    | 1,608,959    |

### 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.



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

Notes: (Continued)

- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) Contributed surplus represents 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.
- (f) During the nine months ended 30 September 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 US\$0.01 each | Price per share |             | Aggregate consideration paid HK\$'000 |
|-------------------|---|-----------------|-------------|---------------------------------------|
|                   |   | Highest HK\$    | Lowest HK\$ |                                       |
| September 2012    | 10,584,000                              | 0.4             | 0.36        | 4,017                                 |

The above shares were cancelled upon repurchase.

- (g) The subscription of shares by China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Ltd 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 Ltd. 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.

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

As at 30 September 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<br>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<br>(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%   | -                                  |                     |   |                 |        |
| Mr. Jia Wenzeng<br>(Note 3)            | Beneficial owner   | -  |  | -   | 4,000,000 (L)                      | 4,000,000 (L)       | 0.14%   |                 |        |
| Mr. Wu Desheng<br>(Note 4)             | Beneficial owner   | -  |  | -   | 2,500,000 (L)                      | 2,500,000 (L)       | 0.09%   |                 |        |

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

*Notes:*

1. 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. 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.
4. 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 September 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<br>per share<br>HK\$ | Number of<br>share options<br>outstanding as<br>at 30 September<br>2013 |
|-------------------------------|------------------|---|-------------------------------------|---|
| Ms. Chan Wai Kay<br>Katherine | 9 September 2010 | 9 September 2010 to<br>8 September 2020 | 0.426                               | 17,000,000  |
|                               | 6 February 2013  | 6 February 2013 to<br>5 February 2015   | 0.426                               | 11,700,000  |
| Mr. Xu Shengheng              | 9 September 2010 | 9 September 2010 to<br>8 September 2020 | 0.426                               | 11,600,000  |
|                               | 6 February 2013  | 6 February 2013 to<br>5 February 2015   | 0.426                               | 11,700,000  |
| Mr. Jia Wenzeng               | 9 September 2010 | 9 September 2010 to<br>8 September 2020 | 0.426                               | 1,500,000   |
|                               | 6 February 2013  | 6 February 2013 to<br>5 February 2015   | 0.426                               | 2,500,000   |
| Mr. Wu Desheng                | 6 February 2013  | 6 February 2013 to<br>5 February 2015   | 0.426                               | 2,500,000   |

Save as disclosed above, as at 30 September 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 September 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<br>of US\$0.01 each in the Company<br>held and capacity |                       | Percentage<br>of interests<br>in shares | Interests<br>under equity<br>derivatives | Aggregate<br>interests | Percentage of<br>aggregate<br>interests |
|--|--|-----------------------|---|--|------------------------|---|
|  | Capacity   | Interest in<br>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)                          | 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 September 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 September 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 September 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 September 2013 | Vesting period of share options      | Exercise period of share options     | Exercise price per share<br>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                           |
|                                | <u>165,492,000</u>   | <u>190,500,000</u>        | <u>-</u>                    | <u>-</u>                 | <u>355,992,000</u>      |                                      |                                      |                                  |

## **COMPETITION AND CONFLICT OF INTERESTS**

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

## **AUDIT COMMITTEE**

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. 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, Mr. Zhao Youmin and Mr. Daiqi 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 Industry Group Limited**  
**Zheng Qiyu**  
*Chairman*

Hong Kong, 5 November 2013