



**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



Interim Report 2014

**TECHNOLOGY AND RESOURCES LINKS**

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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 for the six months ended 30 June 2014 (the "Review Period") amounted to approximately HK\$136,277,000.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$8,903,000.

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 six months ended 30 June 2013.

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
– Shallow ground source energy	26,399	92,946	134,288	129,187
– Rental income	1,072	2,311	1,989	4,595
Total revenue	27,471	95,257	136,277	133,782
Profit for the period	4,354	25,972	8,903	28,722
Profit attributable to owners of the Company	2,146	27,626	2,803	29,132

During the Review Period, the Group's revenue amounted to approximately HK\$134,288,000 which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$129,187,000 for the corresponding period last year. The revenue increased by approximately HK\$5,101,000 as compared with that of corresponding period last year. The increase in revenue was mainly attributable to the fact that, the Group provided to its existing customers with free upgrade and transformation of the geothermal energy collection equipment last year in order to meet the new standards of "The Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection Well" which received good response and increased customers' loyalty to the enterprise. Hence, the Group secured more projects and completed by stage in the period under review. The Group's gross profit margin decreased from 55.5% in last corresponding period to 43.1% in the current period, that was mainly due to the expansion of business in districts other than Beijing with more competitive prices which caused the decrease in gross profit margin.

Other income increased from approximately HK\$4,363,000 in the corresponding period last year to approximately HK\$51,450,000 for the six months ended 30 June 2014. The increase was mainly attributable to the one-off government incentive for development of the integration of heating and cooling emerging industry and the increase in interest income due to the increased bank balances for the Review Period.

Selling and distribution expenses amounted to approximately HK\$13,170,000 and HK\$32,602,000 for the six months ended 30 June 2014 and 2013 respectively. In order to ensure the completed projects to meet the new standards, the Group committed to provide an one-off 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 during the six months ended 30 June 2013, thereby enhancing the promotional effect. Excluding this one-off impact in last year, thus the selling and distribution expenses dropped in this Review Period.

During the Review Period, administrative expenses increased by approximately HK\$3,472,000 or 7.9% as compared with that of six months ended 30 June 2013. Administrative expenses increased mainly due to the increase in staff costs and depreciation expenses arising from the Beijing office which was acquired at the end of last year.

During the Review Period, 恒有源科技發展集團有限公司, a subsidiary of the Group, completed the acquisition of the remaining 62.03% of the issued share capital of 恒有源投資管理有限公司 (formerly as an associate of the Group) from 北京市四博連通用機械新技術公司, a related company of the Group, this led to the “loss on deemed disposal of an associate” amounted to approximately HK\$5,877,000.

Finance costs amounted to HK\$27,060,000 for the six months ended 30 June 2014 as compared with approximately HK\$2,593,000 for the last corresponding period. The increase in finance costs was mainly due to the increase in interest expense on bank loans.

Profit attributable to owners of the Company was approximately HK\$2,803,000 for the six months ended 30 June 2014 (2013: approximately HK\$29,132,000). The decrease in profit attributable to owners was due to the decrease in gross profit and increase in finance costs.

### **Order Book**

As at 30 June 2014, the Group has contracts on hand of approximately HK\$311,533,000.

### **Investment Properties**

The Group’s investment properties as at 30 June 2014 were valued at approximately HK\$307,175,000. This resulted in an increase in fair value of investment properties of approximately HK\$6,481,000 (2013: approximately HK\$7,757,000) 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 2014 was approximately HK\$870,669,000 (31 December 2013: approximately HK\$938,779,000). As at 30 June 2014, the Group had cash and bank balances of approximately HK\$530,539,000 (31 December 2013: approximately HK\$541,930,000). Cash shown on our statement of financial position include funds available for general corporate purposes.

Non-controlling interest amounted to approximately HK\$42,625,000 which mainly represents the interest attributable to non-controlling shareholders of the Group’s subsidiaries in the PRC.

### **Charges on asset**

As at 30 June 2014, no Group’s asset has been charged.

## **Gearing Ratio**

The gearing ratio of the Group was maintained at 31.0% as at 30 June 2014 (31 December 2013: 31.2%).

## **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 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

## **Employees**

As at 30 June 2014, the Group has approximately 540 employees in total (31 December 2013: approximately 510). 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**

Under the Beijing-Hong Kong integrated management framework, the Group has developed into an enterprise by using accelerated development to solve problems arising from the development. In the last decade, the headquarter in Beijing named Ever Source Science and Technology Development Group Co., Ltd. ("HYY") of China Ground Source Energy Industry Group Ltd. (HK Stock Code 8128, referred as CGS) under the hierarchy of China Energy Conservation and Environmental Protection Group has been one of the emerging enterprises engaged in the exploration and utilization of shallow ground source energy (heat). Combining its indigenous technology "Single-Well Heat Exchange Circulation for Ground Source Energy Collection" and the mature heat pump technology, it has provided heating in winter and cooling in summer to buildings of over 10,000,000 m<sup>2</sup> which proved that shallow ground source energy (heat) has successfully substituted the traditional combustion heating (which features combustion, emission and pollution) for buildings and has developed to be the emerging industrial of Integrated Heating and Cooling System with ground source energy which is free of combustion.

## I. Introduction of Combustion-free Integrated Heating and Cooling System with ground source energy

### (1) *Shallow ground source energy (heat)*

Shallow ground source energy (heat) normally refers to the low-grade heat of 25°C or less (according to the relevant laws and regulations, geothermal energy of above 25°C is the mineral resources of the country) which is mainly stored in the rock and soil of the land, the river water, the lake water, the sea water, the residual heat water, the water, the waste heat water.

### (2) *The industrialization development of the indigenous technology*

The Single-Well Heat Exchange Circulation for Ground Source Energy Collection technology of Combustion-free Integrated Heating and Cooling System has realized the industrialization development. It is applicable under any geological conditions, free of pollution and with cost equivalent to traditional heating in exploration of shallow ground source energy stored in the soil and rock to be the substitute energy of heating for buildings. Combined with the mature heat pump technology, it can extract massive amount of free natural energy in dynamic equilibrium at cost of very small amount of electricity and it is renewable and free of pollution and emission. Hence, graded heating energy utilization and heating provision to buildings at cost equivalent to traditional heating can be achieved.

## II. The advantages of Combustion-free Integrated Heating and Cooling System

### (1) *Environmental advantages*

Combustion-free Integrated Heating and Cooling System has achieved ecological civilization construction and further accelerated the transformation and upgrade of the traditional industries and gradually led to a new way for China to cure haze problem.

An important cause to haze pollution is the low-altitude emission discharged by enormous fuel-combustion for heating. The emission containing harmful gas, dirt and vast heat when encountering typical weather condition transforms into haze. Using Combustion-free Integrated Heating and Cooling System for heating provision to buildings can achieve no pollution and emission for the regions during the whole heating process. It can improve the economic development and the people's quality of life while addressing the ecological problems. In addition, It can eliminate the conditions of haze produced from the source so as to pursue harmony between human and nature.

(2) *Technical advantages*

The Single-Well Heat Exchange Circulation for Ground Source Energy Collection is the core technology of Combustion-free Integrated Heating and Cooling System. The technology patent is wholly owned by HYY. The characteristic of the industrialization is the strong designability of the system. At the premise of no pollution, no water loss and no potential danger to geological situation, it realizes the extraction of shallow ground source energy under different geological conditions at cost equivalent to the traditional heating.

(3) *Cost advantages*

a. *Initial investment cost advantages*

The initial investment cost of Combustion-free Integrated Heating and Cooling System with ground source energy is equivalent to that of conventional air-conditioning system. Without incurring additional heating cost to buildings, it can achieve three functions, i.e. provision of heating, cooling and domestic water.

b. *Operating cost advantages*

Combustion-free Integrated Heating and Cooling System with ground source energy as alternative energy for heating, its operating cost is equivalent to 25% of the cost of traditional electric boilers. When providing cooling, it can save 15-20% energy as compared to the conventional central air-conditioner. Besides, free domestic water can be obtained during the heat re-collection process. When boiling of domestic water, only 12kWh electricity will be consumed for every ton of domestic water.

(4) *Safe operation advantages*

As compared with the traditional heating by coal, oil, gas which required for fire and explosion prevention. Combustion-free Integrated Heating and Cooling System with ground source energy only need to ensure the electricity safety which is easy for operation, safe and reliable.



(5) *Standardization advantages*

To realize the marketization development of the emerging industrial of Integrated Heating and Cooling System with ground source energy, there must be standards to follow. The Beijing local standard “The Technical Code for Single Well Circulation Heat Exchange Geothermal Energy Collection” (DB11/T935-2012) was implemented on 1 April 2013 which marked the industrialization development of the indigenous technology.

HYY has passed the rigorous inspection and obtained several international standard certifications, such as ISO9001, ISO14001, OHSAS18001 etc.

(6) *Main industrial chain advantages*

Combustion-free Integrated Heating and Cooling System with ground source energy is a development mode pursuant by HYY for group development & emerging industrial development with professional support. The Group inherited the fine tradition of the traditional heating industry by adoption of the products production suitable for energy regions to secure the promotion of the regional applications and by adoption of the regional service assurance system to ensure safe regional heating operation. By possession of the main industrial chain featuring the research and development, ground source energy collection, system design, equipment manufacturing, engineering installation, operation and maintenance assurance, a total solution for combustion-free heating supply of Integrated Heating and Cooling with ground source energy can be provided to the customers.

(7) *Advantages of products series under industrialization development*

- a. HYY 5-900MW Dispersed Ground Source Station for Cooling/Heating, being heating station for new towns and cities, can achieve heating, cooling and domestic water provision to regional constructions of 100,000 m<sup>2</sup> – 15,000,000 m<sup>2</sup> by Combustion-free Integrated Heating and Cooling System with ground source energy.
- b. HYY Ground Source Heat Pump System, being self-supply heating system, for single building or building blocks which can provide heating, cooling and domestic water for building area of 2,000 m<sup>2</sup> – 500,000 m<sup>2</sup>.
- c. HYY Ground Source Heating Devices capable to serve 50 m<sup>2</sup> – 2,000 m<sup>2</sup> rural household by provision of heating, cooling and domestic water which can solve the different heating needs in a low energy consumption manner.

### III. Emerging Industrial of Combustion-free Integrated Heating and Cooling System with ground source energy made substantial progress

Combustion-free Integrated Heating and Cooling System with ground source energy has been promoted nationally and covered over 10 million m<sup>2</sup> which is equivalent to construction of a 780MW Dispersed Ground Source Station for Cooling/Heating. Compared with heating by electric boiler, it can save 975 million kWh electricity per annum (0.37 million tons standard coal), 0.943 million tons/year CO<sub>2</sub> reduction, 8,900 tons/year SO<sub>2</sub> reduction, 5,900 tons/year NO<sub>x</sub> reduction, 16,000 tons/year particles reduction, 5.02 billion m<sup>3</sup> smoke reduction, equivalent to reducing construction of a 580MW power plant, saving investment of about 2.3 billion yuan.

During the review period, the promotion and development of the utilization of shallow ground source energy by the Group has well received attention by the community and the experts and the continuous support from the leaders. In the afternoon of 3rd June, State Councillor, Mr. Wangyong visited our project site in person and gave high comments to the projects of combustion-free heating provision to buildings by shallow ground source energy. State-owned Assets Supervision and Administration Commission of State Council, National Energy Administration and other governmental departments joined the Group's conferences for special topic to further explore the emerging industrial of combustion-free Integrated Heating and Cooling System with ground source energy from the perspectives of policy and market support.

With the continuous improvement of the Group's business models and main industrial chain, the Group further enhanced its core competitiveness. It is believed that, with the unremitting efforts of the management team and the solid foundation, the Group's operating results will be further improved.

## 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 six months ended 30 June 2014 together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	3	27,471	95,257	136,277	133,782
Cost of sales		(25,664)	(31,975)	(77,612)	(59,593)
Gross profit		1,807	63,282	58,665	74,189
Other income		47,058	3,301	51,450	4,363
Gain on disposal of a portion of investment properties		–	–	–	51,573
Fair value changes on investment properties		6,481	7,757	6,481	7,757
Selling and distribution expenses		(6,986)	(1,683)	(13,170)	(32,602)
Administrative expenses		(21,449)	(24,218)	(47,634)	(44,162)
Profit from operations		26,911	48,439	55,792	61,118
Loss on deemed disposal of an associate		–	–	(5,877)	–
Share of results of associates		(545)	276	(1,645)	79
Share-based payments		–	(4,770)	(1,371)	(11,477)
Finance costs		(15,074)	(1,292)	(27,060)	(2,593)
Profit before tax		11,292	42,653	19,839	47,127
Income tax expense	4	(6,938)	(16,681)	(10,936)	(18,405)
Profit for the period	5	4,354	25,972	8,903	28,722

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

For the six months ended 30 June 2014

	Three months ended		Six months ended		
	30 June		30 June		
	Notes	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Other comprehensive income (expense):					
Exchange differences arising on translation of foreign operations		465	10,211	(24,027)	14,386
<b>Total other comprehensive income (expense) for the period</b>		<b>465</b>	<b>10,211</b>	<b>(24,027)</b>	<b>14,386</b>
<b>Total comprehensive income (expense) for the period</b>		<b>4,819</b>	<b>36,183</b>	<b>(15,124)</b>	<b>43,108</b>
Profit (loss) attributable to:					
Owners of the Company		2,146	27,626	2,803	29,132
Non-controlling interests		2,208	(1,654)	6,100	(410)
		<b>4,354</b>	<b>25,972</b>	<b>8,903</b>	<b>28,722</b>
<b>Total comprehensive income (expense) attributable to:</b>					
Owners of the Company		2,570	36,615	(19,791)	42,104
Non-controlling interests		2,249	(432)	4,667	1,004
		<b>4,819</b>	<b>36,183</b>	<b>(15,124)</b>	<b>43,108</b>
Earnings per share	7				
Basic (HK cents)		0.074	0.952	0.097	1.004
Diluted (HK cents)		0.074	0.951	0.096	1.003

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	276,520	233,434
Investment properties	8	307,175	308,776
Deposit paid for acquisition of land use rights	16	244,377	244,377
Goodwill		466,115	445,850
Interests in associates		23,978	57,570
Available-for-sale investments		499	512
Prepayments		18,710	20,841
Deferred tax assets		22,262	22,262
		<b>1,359,636</b>	<b>1,333,622</b>
<b>Current assets</b>			
Inventories		22,331	17,166
Properties held for sales under development		108,771	106,005
Trade and retention receivables	9	136,180	129,237
Prepayments, deposits and other receivables		142,102	73,022
Consideration paid for the acquisition of a subsidiary		–	62,759
Refundable deposit paid for setting up of a joint venture		–	38,424
Amounts due from customers for contract work		380,450	389,506
Amount due from an associate		5,130	2,323
Amount due from related companies		7,153	–
Held-for-trading financial assets		196	40
Cash held at non-bank financial institutions		1,262	1,262
Short-term bank deposits		–	484,763
Bank balances and cash		530,539	57,167
		<b>1,334,114</b>	<b>1,361,674</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
<b>Current liabilities</b>			
Trade payables	10	125,155	125,463
Accrued liabilities, deposits received and other payables		196,750	169,946
Amounts due to customers for contract work		12,167	18,956
Amounts due to related companies		4,006	560
Amounts due to associates		21,672	9,279
Tax payable		103,695	98,691
		463,445	422,895
<b>Net current assets</b>		870,669	938,779
<b>Total assets less current liabilities</b>		2,230,305	2,272,401
<b>Non-current liabilities</b>			
Receipt in advance		10,901	11,633
Deferred income		7,545	7,741
Borrowings		499,310	512,321
Deferred tax liabilities		60,246	60,136
		578,002	591,831
<b>Net assets</b>		1,652,303	1,680,570
<b>Capital and reserves</b>			
Share capital	11	226,053	226,053
Reserves		1,383,625	1,416,559
Equity attributable to owners of the Company		1,609,678	1,642,612
Non-controlling interests		42,625	37,958
<b>Total equity</b>		1,652,303	1,680,570

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	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 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 (loss) 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)
Appropriation	-	-	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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2014

	Attributable to owners of the Company											Total	Non- controlling interests	Total equity	
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share- based payment reserve	Exchange translation reserve	Retained earnings					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)								
At 1 January 2014 (Audited)	226,053	891,630	2,346	25,255	154,381	(1,694)	32,235	52,972	74,011	185,423	1,642,612	37,958	1,680,570		
Profit for the period	-	-	-	-	-	-	-	-	-	2,803	2,803	6,100	8,903		
Other comprehensive expense for the period:															
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(22,594)	-	(22,594)	(1,433)	(24,027)		
Total other comprehensive expense for the period	-	-	-	-	-	-	-	-	(22,594)	-	(22,594)	(1,433)	(24,027)		
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	(22,594)	2,803	(19,791)	4,667	(15,124)		
Recognition of share-based payment expenses	-	-	-	-	-	-	-	1,371	-	-	1,371	-	1,371		
Dividends recognised as distribution (note 6)	-	(14,514)	-	-	-	-	-	-	-	-	(14,514)	-	(14,514)		
Appropriation	-	-	589	-	-	-	-	-	-	(589)	-	-	-		
At 30 June 2014 (Unaudited)	226,053	877,116	2,935	25,255	154,381	(1,694)	32,235	54,343	51,417	187,637	1,609,678	42,625	1,652,303		



*Notes:*

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.
- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) 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 in prior year.
- (e) 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 2014

	Six months ended	
	30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash (outflow) inflow from operating activities	(15,392)	85,156
Net cash inflow (outflow) from investing activities	29,870	(131,897)
Net cash (outflow) inflow from financing activities	(25,415)	3,013
<hr/>		
Decrease in cash and cash equivalents	(10,937)	(43,728)
Effect of foreign exchange rates changes	(454)	1,548
Cash and cash equivalents at the beginning of the period	541,930	156,459
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Cash and cash equivalents at end of the period	530,539	114,279

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## 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 year ended 31 December 2013.

## 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 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 investment 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.

**(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		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	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue								
External customers	134,288	129,187	-	-	1,989	4,595	136,277	133,782
Segment results	41,360	12,130	(509)	(6,526)	19,164	60,414	60,015	66,018
Share of results of associates							(1,645)	79
Unallocated other income							5,707	2,335
Unallocated expenses							(17,570)	(21,305)
Unallocated finance costs							(26,668)	-
Profit before tax							19,839	47,127

**(b) Segment assets**

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

	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Shallow ground source energy	1,270,866	1,264,449
Securities investment and trading	5,793	7,018
Properties investments and development	761,475	698,142
<b>Total segment assets</b>	<b>2,038,134</b>	1,969,609
Unallocated corporate assets	655,616	725,687
<b>Consolidated total assets</b>	<b>2,693,750</b>	2,695,296

#### 4. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
PRC enterprise income tax	5,294	14,741	9,292	16,465
Deferred tax	1,644	1,940	1,644	1,940
	<b>6,938</b>	16,681	<b>10,936</b>	18,405

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 2014 (2013: 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 2014.

## 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	24,933	31,324	76,580	57,796
Staff costs				
(including directors' emolument)	10,934	9,765	28,161	23,056
Depreciation and amortisation	3,286	964	7,215	2,317
Minimum lease payments under operating leases in respect of land and buildings	2,637	3,201	4,878	6,278

## 6. DIVIDENDS

The Board does not recommend the payment of an interim dividend (2013: nil) for the six months ended 30 June 2014.

	Six months ended	
	30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend recognised as distribution during the period ( <i>note</i> )	14,514	11,611

*Note:* On 13 June 2014, a dividend of HK 0.50 cents per share (2013: HK 0.40 cents per share) was paid to the shareholders of the Company as the final dividend for the year ended 31 December 2013.

## 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Earnings</b>				
Earnings for the period attributable to owners of the Company and for the purpose of basic earnings and diluted earnings per share	2,146	27,626	2,803	29,132
<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	2,902,827	2,902,827	2,902,827
Effect of dilutive potential ordinary shares:				
Share options (note)	14,290	3,634	6,498	1,580
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,917,117	2,906,461	2,909,325	2,904,407

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

During the Review Period, the Group incurred approximately HK\$2,161,000 (2013: HK\$7,177,000) on acquisition of property, plant and equipment.

The Group's investment properties as at 30 June 2014 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\$6,481,000 (2013: HK\$7,757,000) has been recognised directly in the income statement for the Review Period.

## 9. TRADE AND RETENTION RECEIVABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade receivables	98,473	103,026
Less: allowance for doubtful debts	<u>(10,151)</u>	<u>(10,416)</u>
	88,322	92,610
Retention receivables	<u>47,858</u>	<u>36,627</u>
	<b>136,180</b>	<b>129,237</b>

The Group generally grants credit period of 30 to 180 days to its customers. 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 from the completion and inspection of the construction projects, 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.

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 90 days	8,651	23,749
91 to 180 days	12,168	44,336
181 to 365 days	63,809	6,479
Over 365 days	<u>3,694</u>	<u>18,046</u>
	<b>88,322</b>	<b>92,610</b>



## 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 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 90 days	5,785	16,369
91 to 180 days	13,394	3,302
181 to 365 days	8,785	21,839
Over 365 days	97,191	83,953
	<b>125,155</b>	<b>125,463</b>

## 11. SHARE CAPITAL

	Number of shares US\$0.01 each		Share capital		Share capital	
	30 June 2014 '000 (Unaudited)	31 December 2013 '000 (Audited)	30 June 2014 US\$'000 (Unaudited)	31 December 2013 US\$'000 (Audited)	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (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 and at end of the period/year	2,902,827	2,902,827	29,028	29,028	226,053	226,053

## 12. COMMITMENTS

### i) Operating lease

#### *The Group as lessor*

The Group sub-leases part of the building and leases the investment properties 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 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	9,748	10,058
In the second to fifth years, inclusive	42,336	43,265
Over five years	71,263	80,646
	<b>123,347</b>	<b>133,969</b>

#### *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 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	3,182	3,299
In the second to fifth years inclusive	2,582	3,960
Over five years	1,900	2,339
	<b>7,664</b>	<b>9,598</b>

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

**ii) Others**

	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Commitments contracted but not provided in the condensed consolidated financial statements in respect of:		
– Investment properties under construction	2,943	3,020
– Acquisition of property, plant and equipment	1,885	1,934
	<hr/> 4,828	<hr/> 4,954

### 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 2014	352,492,000
Lapsed during the period	(4,000,000)
	<hr/> 348,492,000
Outstanding at 30 June 2014	<hr/> 348,492,000

## 14. ACQUISITION OF A SUBSIDIARY

On 24 January 2014, the acquisition of the remaining 62.03% of the issued share capital of 恒有源投資管理有限公司（「恒有源投資」） by 恒有源科技發展集團有限公司（「恒有源」），a subsidiary of the Group, from 北京市四博連通用機械新技術公司（「四博連」） was completed, a related company of the Group, at cash consideration of RMB49,000,000 (approximately HK\$62,759,000) was completed. The Group's equity interest in 恒有源投資 had been increased from 37.97% to 100% and 恒有源投資 became a wholly-owned subsidiary of the Group. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was approximately RMB15,840,000 (equivalent to HK\$20,294,000). 恒有源投資 is principally engaged in business planning, consulting and management services and promotion. 恒有源投資 was acquired to act as investment platform for the future expansion of the Group's investment operations.

### Assets acquired and liabilities recognised at the date of which control was obtained are as follows:

	<i>HK\$ '000</i> (Unaudited)
Property, plant and equipment	57,289
Amount due to a holding company	19,085
Prepayments, deposits and other receivables	3,693
Bank balances and cash	309
Amount due to a holding company	(11,877)
Accrued liabilities, deposits received and other payables	(9)
	<hr/> 68,490

### Goodwill arising on acquisition

	<i>HK\$ '000</i> (Unaudited)
Cash Consideration	62,779
Add: fair value of the associate	26,005
Less: recognised amount of identifiable net assets acquired (100%)	(68,490)
	<hr/>
Goodwill arising on acquisition of a subsidiary	20,294

### Net cash outflow arising on acquisition:

	<i>HK\$'000</i>
	(Unaudited)
Cash Consideration	62,779
Less: bank balances acquired	(309)
	<hr/>
	(62,470)

### Impact of acquisition on the results of the Group

Included in the profit for the period is approximately HK\$2,425,000 (equivalent to approximately RMB1,935,000) loss attributable to 恒有源投資. No revenue for the period is attributable to 恒有源投資.

## 15. RELATED PARTY TRANSACTIONS

(a) During the periods ended 30 June 2014 and 2013, the Group entered into the following transactions:

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease payments paid to a non-controlling shareholder	1,193	1,031	2,386	2,061
Rental income from an associate	80	80	160	160
Purchase from an associate	–	1,640	–	1,640
	<hr/>		<hr/>	
	1,273	2,751	2,546	3,861

**(b) Remuneration of key management personnel**

The remuneration of directors and other members of key management during the periods ended 30 June 2014 and 2013 was as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short term benefits	1,852	1,622	4,002	3,742
Retirement benefits scheme contributions	12	15	23	30
	1,864	1,637	4,025	3,772

**16. EVENTS AFTER THE REPORTING PERIOD**

Up to the date of this report, the deposit paid for the acquisition of land use rights had been fully refunded by Dalian Land and Housing Authority.

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

As at 30 June 2014, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### (a) Long Positions and Short Positions in Shares and Equity Derivatives

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares					
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)		1.17%	28,700,000 (L)		2.51%
	Interest of spouse	10,074,000 (L)		0.35%	-	72,774,000 (L)	
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%	-		
Mr. Jia Wenzeng (Note 3)	Beneficial owner	-		-	4,000,000 (L)	4,000,000 (L)	0.14%
Mr. Wu Desheng (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 June 2014, 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 2014
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
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 2014, 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 2014, 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:

- 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.
- 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 2014, 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 2014, options to subscribe for an aggregate of 348,492,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2014 were as follows:

Date of grant of share options	As at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2014	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	66,992,000	-	-	4,000,000	62,992,000	-	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
	352,492,000	-	-	4,000,000	348,492,000			

## COMPETITION AND CONFLICT OF INTERESTS

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

## 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 9 May 2014 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, 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, 8 August 2014