



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

TECHNOLOGY
AND RESOURCES LINKS

First Quarterly Report 2015



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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\$89,657,000 for the Review Period.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,217,000.

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 three months period ended 31 March 2015 (the “Review Period”) and 31 March 2014.

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
– Shallow ground source energy utilisation system	86,229	107,889
– Properties investment	3,428	917
	89,657	108,806
Profit for the period	2,217	4,549
Profit attributable to owners of the Company	2,429	657



During the Review Period, the Group's revenue amounted to approximately HK\$89,657,000 which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$108,806,000 for the corresponding period last year. The revenue decreased by approximately HK\$19,149,000 as compared with that of corresponding period last year, and the Group's gross profit margin decreased from 52.3% in last corresponding period to 46.4% 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 corresponding period last year. These contracts had higher gross profit margins which lead to a higher gross profit margin in the corresponding period last year.

Other income increased from approximately HK\$4,392,000 in the corresponding period last year to approximately HK\$14,035,000 for the three months ended 31 March 2015. The increase was mainly attributable to the one-off government incentives for development of the integration of heating and cooling emerging industry for the Review Period.

Selling and distribution expenses amounted to approximately HK\$6,804,000 and HK\$6,184,000 for the three months ended 31 March 2015 and 2014 respectively. The selling and distribution expenses in the Review Period is maintained at a similar level as compared with the corresponding period last year.

During the Review Period, administrative expenses increased by approximately HK\$610,000, or 2.3% as compared with that of three months ended 31 March 2014. Administrative expenses increased mainly due to the increase in staff costs.

Finance costs amounted to HK\$10,708,000 was recorded for the three months ended 31 March 2015 as compared with approximately HK\$11,986,000 for last corresponding period. The finance costs was represented the interest expense on bank loans.

Profit for the Review Period (for the three months ended 31 March 2015) was approximately HK\$2,217,000, whereas it was HK\$4,549,000 for the corresponding period in last year.



BUSINESS REVIEW AND OUTLOOK


During the Review Period, the State-owned Assets Supervision and Administration Commission (SASAC) published a “General Report”, pointing out that “after an on-site visit to one of the integrated heating and cooling projects implemented by the Group in 2014, State Councilor Wang Yong spoke highly on the original technology owned by the Group, i.e., the single-well ground source energy collection technology. He asked for great expansion in application of the technology and urged enterprises at the central level to take the lead in putting the technology into use in applicable projects, facilities and buildings, so as to achieve a stronger and more forceful development in ground source energy heating industry.”

During the Review Period, the Group has been improving its technology systems to provide combustion-free heating for buildings and achieve integrated heating and cooling with ground source energy. As a result, the concept of “intelligent heating” turns into reality.

Background of Intelligent Heating

The 21st century commenced with tremendous transformations in traditional heating sector which relies heavily on combustion of fossil energies:

1. Low efficiency in combustion-based energy utilization led to several breakout of fossil energy crises in the world. As the world’s average energy utilization rate is 50.35%, China’s rate is merely 36.8%. Moreover, excessive burning of fossil energies resulted in serious ecological environment crises (such as smog, acid rain and global warming). These changes compose a pressing force that calls for wider development of intelligent heating with shallow ground source energy.
2. Energy demand (currently China’s dependency on petrol exceeds 60% and dependency on natural gas exceeds 30%) is further increased by the ever enhancing need of the people for higher living standards especially better living environment (such as heating in winters and cooling in summers). An acute challenge ahead is to satisfy people’s increasing needs with limited energy supply. This challenge stands as a driving force to promote intelligent heating with shallow ground source energy.
3. Rapid dissemination of big data and internet, together with industrial revolution, development of renewable energies and breakthroughs in new technologies provides generous propelling force to the development of intelligent heating.

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4. The four energy revolutions flagged by President Xi (i.e., energy consumption revolution, energy supply revolution, energy technology revolution and energy system revolution) articulate the objectives and directions for energy utilization and development in China.
 5. With industrialized application of the original technology for collection of ground source energy developed by the HYY Company, the ground source energy as a low-grade and renewable energy that widely exists in the world with huge reserves has grown into a substitute energy in providing combustion-free heating for buildings. It therefore manifests an energy revolution in heating sector in the new era.

Definition and Features of Intelligent Heating

Intelligent Heating means an environmental friendly system that can not only provide heating for buildings free of combustion, but also can make responsive adjustment by perceiving surrounding information (such as temperature).

Such “responsive adjustment” features six characteristics:

1. The system with “responsive adjustment” can provide a comfortable and constant living environment for people by being responsive to perceived changes in surroundings including quality of ground source energy and temperature. Such a comfort level is achieved by an internet-based distributive energy system that relies on big data processing (including ground source energy quality, external temperature, individual preferences, client bases, thermal insulation status of buildings etc) and cloud computing.
2. With “responsive adjustment”, the system is conservative and highly efficient in energy consumption. Compared with fossil energy fired heating for buildings, such system based on phase change principle combining heat transfer technology to use free ground source energy from the underground for producing heating for buildings at cost of a small amount of electricity to drive compressors and water pumps. Energy utilization rate for heating with the system exceeds 108% and more than 60% of energy consumed by such heating for buildings is renewable.



3. With “responsive adjustment”, the system is low in cost. Such low cost not only gives the system special advantages in times when prices of fossil energy rises or price elasticity to demand lowers, but also entitles the system with relatively low operational cost. In addition, such low cost also means that the system can save additional financial input in energy transportation and storage as needed by fossil energies.
4. With “responsive adjustment”, the system achieves zero pollution in territories of use by utilizing ground source energy to provide heating for buildings in a combustion free way. Therefore, it can not only create enjoyable living comfort for its users, but also a clean and healthy external environment free from pollutant emissions of CO₂, SO₂, NO_x and VOC etc.
5. With “responsive adjustment”, the system is supported by sufficient energy supply. Shallow ground source energy is widely contained in sand, soil, rocks and waters in the underground. As a renewable energy, it is widely distributed and easy for exploitation free from any climate constraints. Therefore, shallow ground source energy being truly inexhaustible and renewable provides a solid energy guarantee for “responsive adjustments” of the system.
6. With “responsive adjustment”, the system is duplicatable. It is because of the ubiquity feature of shallow ground source energy that makes the system duplicatable to provide combustion free heating for buildings. To put it into other words, the system is capable of creating comfort and stable living environment for people in any locality, geology, topography and climate conditions.

Foundation of Intelligent Heating

First of all, intelligent heating is an engineering of decision makers. *The Atmospheric Pollution Prevention Law* and *the Renewable Energy Law* offer a legislative foundation for intelligent heating for buildings with shallow ground source energy in a combustion-free way.

Decision makers shall formulate macro energy strategy based on observations from three dimensions, namely clean development, energy dependency and energy management. As government is the only entity that can formulate macro energy strategy of a locality or a nation, government is always regarded as the first person responsible for ecological environment protection, and a most powerful decision maker in constructing macro energy development strategy.



The true value of intelligent heating lies in the fact that it satisfies people's need for comfortable and stable living environment at low cost and low energy consumption and with high efficiency, zero pollution and low energy dependency. In a heating energy system highly dependent on fossil energies, it is impossible to achieve maximum optimization of the above-mentioned three dimensions. Therefore, decision makers are obliged to take advantages of intelligent heating in achieving industrial escalation of heating sector, and in mobilizing broad public participation. Based on existing legislations, and through innovations in energy structures and systems, decision makers can help to push forward revolutions in energy consumption, energy supply, energy technology and energy system by establishing a new energy supply system featuring coexistence of traditional energies and renewable energies while having ground source energy as primary substitute energy for building heating.

Secondly, as the biggest building market in the world, China stands as a solid market foundation for development of intelligent heating for buildings with shallow ground source energy in combustion-free ways.

According to some incomplete statistics, the newly constructed building area in China has increased by 28 billion m² during the ten years between 2004 and 2013. Along with steady national economic and social development and taking into account of the rigidity of living demand of people, it is estimated with reservation that in the upcoming five years, the newly constructed building areas will increase by another 10 billion m². Supposing 50% of these newly built areas require heating, and 40% of those with heating needs using shallow ground source energy to achieve intelligent heating, it is predicted that in the upcoming five years, the market for intelligent heating with shallow ground source energy will reach to over 2 billion m².

Moreover, it needs to be pointed out that constantly hiking prices of fossil energies, every enhancing need of the people for better quality lives and intensifying pressure of ecological environment are potential catalysts in promoting development of intelligent heating with shallow ground source energy.

Thirdly, original ground source energy collection technology and mature heat pump technology provide strong technology guarantee for further promotion of intelligent heating with shallow ground source energy.



The single well shallow ground source energy collection technology, mature heat pump technology, innocuous elastic fillings together with sufficient supply of ground source energy have made it possible for the Group to develop an interactive concept of product design, elaborate management over system operations, and brand building concept to ensure EMC property service quality. The industrial development modality that relies on renewable ground source energy is formulated and equipped with a complete non-stop service chain that puts quality first throughout every step including design and research, equipments manufacturing, system installation, property management and maintenance services. With a full range of products including large scale distributive HYH Ground Energy Heating and Cooling Station for city level heating services, HYH Ground Energy Heat Pump Environmental System for district level heating needs and convenient heating devices for rural household independent heating needs, the Group has managed to achieve a non-differential full coverage of both urban and rural areas in terms of capacity to provide intelligent heating for buildings with shallow ground source energy.

Fourthly, applications of new technologies such as industrial internet, internet of things and industrial clouds and popularization of some new concepts of industrialization including leading marketing philosophies lay secure foundation for promotion of intelligent heating.

The big data era together with wide popularization of internet provides new development opportunities for combustion-free intelligent heating for buildings:

The emerging industry of integrated heating and cooling with ground source energy is entering into a fast growth track as the concept of intelligent heating is turned into reality with the help from the open and globalized internet, the industrial internet that links person, data and machines, the internet of things that connects all things through information sensing devices and internet and intensifies logistics and management of logistics information; the industrial cloud that contains various industrial software by using computer technology and data processing technology, and new industrialization theories including Idea Marketing led by internet ideology.

During the Review Period, the contract value of new projects for integrated heating and cooling with ground source energy signed by the Group exceeds that of previous year. All of these are intelligent heating projects. It is estimated that with the implementation of these projects, the Group can help to save more than 2,000 tons standard coal and reduce more than 50,000 tons of CO₂ in this year.



During the Review Period, the Group's projects in constructing new industrial park of integrated heating and cooling has been developing smoothly. The Xianyuwan Industrial Park in Dalian achieved steady progress. The Demonstration and Experiencing Centre of 25,000 m² that is about complete has been developed into the "Caribbean Retreat Resort" and entrusted to the BTG-Jianguo Group for management and operation. Dalian Ground Energy Heating Service Co., Ltd. (大連地能熱力有限公司), wholly owned by the Group, is engaged in the construction of 900MW distributive HYH Ground Energy Heating and Cooling Station. It has started designing of the energy plan for the station which is expected to be finished by June this year. The franchise project has been approved by local government to use ground source energy to provide heating for 20.4 km².

Joint venture agreements on establishing Hongyuan Ground Energy Heating Devices Technology Co. Ltd. (虹源地能熱寶技術有限公司) and the Hongyuan Ground Energy Heat Pump Technology Co. Ltd. (虹源地能熱泵科技有限公司) were signed in Chengdu during the period by the Group and the Changhong Group. These two joint ventures are aimed to further enrich the heating device series of the Group by engaging in production, research, system integration and marketing of both integrated-type and split-type machines for heating and cooling with ground source energy.

With continuous improvement of business modality and main industrial chain of the Group, the core competitiveness of the Group has achieved further enhancement. It is believed that under the unremitting efforts of the entire operation and management team, the business performance of the Group will attain additional uplift in the upcoming period.

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 ended 31 March 2015 together with the unaudited comparative figures for the corresponding periods in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

	Notes	Three months ended 31 March	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Revenue	2	89,657	108,806
Cost of sales		(48,069)	(51,948)
Gross profit		41,588	56,858
Other income		14,035	4,392
Selling and distribution expenses		(6,804)	(6,184)
Administrative expenses		(26,795)	(26,185)
Profit from operations		22,024	28,881
Share of results of an associate		(896)	(1,100)
Share-based payments		(4,276)	(1,371)
Loss on deemed disposal of an associate	9	-	(5,877)
Financial costs	3	(10,708)	(11,986)
Profit before tax		6,144	8,547
Income tax expense	4	(3,927)	(3,998)
Profit for the period	5	2,217	4,549
Other comprehensive income (expense) for the period:			
Fair value gains on available-for-sale investments		365	-
Share of other comprehensive expense of an associate		(7)	-
Exchange differences arising on translation of foreign operation		754	(24,492)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the three months ended 31 March 2015

	Notes	Three months ended 31 March	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Total other comprehensive income (expense) for the period		1,112	(24,492)
Total comprehensive income (expense) for the period		3,329	(19,943)
Profit (loss) attributable to:			
Owners of the Company		2,429	657
Non-controlling interests		(212)	3,892
		2,217	4,549
Total comprehensive income (expense) attributable to:			
Owners of the Company		3,495	(22,361)
Non-controlling interests		(166)	2,418
		3,329	(19,943)
Earnings per share	7		
Basic (HK cents)		0.084	0.023
Diluted (HK cents)		0.084	0.023



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2015

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Listing Rules) and with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2014.

The Group has adopted new and amended standards and interpretations of HKFRSs which are mandatory for the accounting periods beginning on or after 1 January 2015 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated first quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

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

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

2. REVENUE

Revenue represents the net amounts received and receivable for goods sold to customers, net of allowance for returns and trade discounts where applicable and services rendered as well as gross rental income received from investment properties.

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

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Shallow ground source energy utilisation system	86,229	107,889
Rental income	3,428	917
	89,657	108,806

3. FINANCE COSTS

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years	10,708	11,788
Imputed interest expense on receipt in advance	–	198
	10,708	11,986

4. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax	3,927	3,998

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 March 2015 (2014: Nil).

PRC enterprise income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the three months ended 31 March 2015.

5. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of sales	48,069	51,647
Staff costs (including directors' emoluments)	19,045	17,227
Depreciation and amortisation	6,526	3,929
Minimum lease payments under operating leases in respect of land and buildings	1,947	3,051

6. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of any dividend for the three months ended 31 March 2015 (2014: nil).

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	
	31 March	
	2015	2014
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to owners of the Company for		
the purpose of basic and diluted earnings per share	2,429	657
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose		
of basic earnings per share	2,883,751	2,902,827
Effect of dilutive potential ordinary shares:		
Share options (<i>note</i>)	-	-
Weighted average number of ordinary shares for		
the purpose of diluted earnings per share	2,883,751	2,902,827

Note: The calculation of diluted earnings per share for the three months ended 31 March 2015 and 2014 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the three months ended 31 March 2015 and 2014.

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

For the three months ended 31 March 2015

	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 d)	(Note e)	(Note f)						
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	-	-	-	-	-	-	-	-	-	657	657	3,892	4,549
Other comprehensive expense for the period:													
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(23,018)	-	(23,018)	(1,474)	(24,492)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	(23,018)	657	(22,361)	2,418	(19,943)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	1,371	-	-	1,371	-	1,371
Appropriations	-	-	395	-	-	-	-	-	-	(395)	-	-	-
At 31 March 2014 (unaudited)	226,053	891,630	2,741	25,255	154,381	(1,694)	32,235	54,343	50,993	185,685	1,621,622	40,376	1,661,998

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

For the three months ended 31 March 2015

	Attributable to owners of the Company												Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserve	Treasury shares	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015 (audited)	226,170	877,919	2,935	(3,083)	34,355	154,381	(1,694)	32,765	68,804	43,967	132,080	1,568,599	40,932	1,609,531
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	2,429	2,429	(212)	2,217
Other comprehensive income (expense) for the period:														
Fair value gains on available-for-sale investments	-	-	-	-	-	-	-	365	-	-	-	365	-	365
Share of other comprehensive expense of an associate	-	-	-	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	708	-	708	-	46	754
Total other comprehensive income for the period	-	-	-	-	-	-	-	365	-	701	-	1,066	46	1,112
Total comprehensive income (expenses) for the period	-	-	-	-	-	-	-	365	-	701	2,429	3,495	(166)	3,329
Cancellation of repurchased ordinary shares	(1,605)	(5,863)	-	3,083	-	-	-	-	-	-	-	(4,385)	-	(4,385)
Repurchase of ordinary shares	-	-	-	(1,904)	-	-	-	-	-	-	-	(1,904)	-	(1,904)
Recognition of share-based payment expenses	-	-	-	-	-	-	-	-	4,276	-	-	4,276	-	4,276
Lapse of share option	-	-	-	-	-	-	-	-	(19,392)	-	19,392	-	-	-
At 31 March 2015 (unaudited)	224,565	872,056	2,935	(1,904)	34,355	154,381	(1,694)	33,130	53,688	44,668	153,901	1,570,081	40,766	1,610,847

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.

8. 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) During the three months period ended 31 March 2015, 17,200,000 ordinary shares were repurchased with the highest price of HK\$0.37 and the lowest price of HK\$0.345. As at 31 March 2015, the total number of issued and fully paid shares included 5,184,000 ordinary shares repurchased prior to the end of the reporting period but cancelled subsequent to the end of the reporting period.
- (d) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior years.
- (e) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests in prior years.
- (f) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior years.

9. ACQUISITION OF A SUBSIDIARY

On 24 January 2014, Ever Source Science and Technology Development Group Company Limited (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 (「恒有源投資」) (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, at cash consideration of RMB49,000,000 (approximately HK\$62,759,000). This was also deemed as disposal of an associate and led to the "loss on deemed disposal of an associate" amounted to approximately HK\$5,877,000. 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. The acquisition has been accounted for using the purchase method. 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 operations.

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

As at 31 March 2015, 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)	1.18%	32,000,000 (L)	76,074,000 (L)	2.64%		
	Interest of spouse	10,074,000 (L)	0.35%	-				
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)	17.63%	22,584,000 (L)	531,605,000 (L)	18.43%		
	Beneficial owner	508,300,000 (S)	17.63%	-			508,300,000 (S)	17.63%
	Interest of spouse	702,000 (L)	0.02%	-				
Mr. Jia Wenzeng (Note 3)	Beneficial owner	-	-	3,000,000 (L)	3,000,000 (L)	0.10%		
Mr. Wu Desheng (Note 4)	Beneficial owner	-	-	1,500,000 (L)	1,500,000 (L)	0.05%		

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



Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 shares and 32,000,000 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 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 22,584,000 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 3,000,000 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 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Positions under Equity Derivatives

The Share Option Plan

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (the “Share Option Plan”) for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 31 March 2015, the following directors of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 31 March 2015
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	7,500,000
		11 August 2015 to 10 August 2016	0.455	7,500,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	5,492,000
		11 August 2015 to 10 August 2016	0.455	5,492,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000
Mr. Wu Desheng	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000

Save as disclosed above, as at 31 March 2015, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 31 March 2015, 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)		29.48%	-	850,000,000 (L)	29.48%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	850,000,000 (L)		29.48%	-	850,000,000 (L)	29.48%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)		0.02%	-		
	Interest of spouse	508,319,000 (L)		17.63%	22,584,000 (L)	531,605,000 (L)	18.43%
	Interest of spouse	508,300,000 (S)		17.63%	-	508,300,000 (S)	17.63%

(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 22,584,000 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 22,584,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at 31 March 2015, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 31 March 2015, options to subscribe for an aggregate of 441,992,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 31 March 2015 were as follows:

Date of grant of share options	As at 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 March 2015	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	64,992,000	-	-	-	64,992,000	-	9 September 2010 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.426
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.426
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.426
6 February 2013	28,400,000	-	-	28,400,000	-	-	6 February 2013 to 5 February 2015	0.426
6 February 2013	158,600,000	-	-	158,600,000	-	6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	0.426
11 August 2014	141,000,000	-	-	-	141,000,000	-	11 August 2014 to 10 August 2016	0.455
11 August 2014	141,000,000	-	-	-	141,000,000	11 August 2014 to 10 August 2015	11 August 2015 to 10 August 2016	0.455
	628,992,000	-	-	187,000,000	441,992,000			



COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai. 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, 17,200,000 shares of US\$0.01 each were repurchased by the Company at prices ranging from HK\$0.345 to HK\$0.37 per share through the Stock Exchange.

As at the date of this report, the Board comprises Mr. Xu Shengheng, Mr. Liu Dajun, Ms. Chan Wai Kay, Katherine 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. Zhang Honghai as independent non-executive Directors.

By Order of the Board of
China Ground Source Energy Industry Group Limited
Liu Dajun
Joint Chairman & Executive Director

Hong Kong, 12 May 2015