



中國地能產業集團有限公司
CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**THIRD QUARTERLY RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2013**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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This announcement, 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 announcement 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 announcement misleading.

HIGHLIGHTS

Revenue was approximately HK\$234.79 million for the nine months ended 30 September 2013 (the “Review Period”).

Net profit after tax of the Group for the Review Period amounted to approximately HK\$48.03 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Industry Group Limited (the “Company”) and its subsidiaries (collectively the “Group”). For more detailed information, please refer to the unaudited consolidated financial statements for the Review Period and the nine months ended 30 September 2012.

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

During the Review Period, the Group’s revenue amounted to approximately HK\$227.88 million which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$233.86 million for the corresponding period last year. The revenue decreased by approximately HK\$5.98 million as compared with that of corresponding period last year which was mainly attributable to the Group’s concentration on its guarantee operations projects in the first quarter. Besides, the Group adopted new technology in order to satisfy the new standards of The Technical Code for single Well Circulation Heat Exchange Geothermal Energy Collection Well, which was published by the Beijing Municipal Administration of Quality and Technology Supervision in April 2013, thus the progress of the work done was retarded.

The Group's gross profit margin increased from 38.1% in the last corresponding period to 59.7% in the current period. It was mainly attributable to the fact that the Group secured some technical support and consultation agreements with large contract sum in the second and third quarters. These contracts have higher gross profit margins which lead to the gross profit margin increased during the Review Period.

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

Selling and distribution expenses amounted to approximately HK\$33.26 million and HK\$8.85 million for the nine months ended 30 September 2013 and 2012 respectively. In order to ensure the completed projects to meet the new standards, the Group committed to provide free modification, installation and testing of the customers' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow ground source energy utilisation system, thereby enhancing the promotional effect, which attributable to the increase in selling and distribution expenses during the Review Period. Besides, the initial investment in market development leads to a significant increase in selling and distribution expenses.

During the Review Period, the Group granted share options to the directors, chief executives, employees and business associates of the Company which leads to the share-based payment increased from approximately HK\$4.40 million in the corresponding period last year to approximately HK\$16.03 million in the current period. Administrative expenses amounted to approximately HK\$66.95 million and approximately HK\$58.84 million for the Review Period and the nine months ended 30 September 2012 respectively. The increase was mainly due to the increase in the staff costs and research and development costs. The Board believes that the Group's continuous expansion depends upon our ability to employ and retain management and technical personnel with the ability to design, utilise, and enhance our services and products. In addition, the Group disposed of a portion of self-built demonstration building in Beijing during the Review Period and it resulted in a gain of approximately HK\$51.57 million.

Finance costs amounted to approximately HK\$4.22 million for the Review Period as compared with approximately HK\$2.61 million for the last corresponding period. The finance costs was the imputed interest expenses of receipt in advance on the rental income.

Profit attributable to owners of the Company was approximately HK\$48.67 million for the nine months ended 30 September 2013 and approximately HK\$37.91 million for the corresponding period last year.

BUSINESS REVIEW AND PROSPECTS

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

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

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

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

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

FINANCIAL RESULTS

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2013

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

	Notes	Three Months ended 30 September		Nine months ended 30 September	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited) (Restated)
Other comprehensive income (expense):					
Gain on leasehold land and building revaluation		-	-	-	477
Fair value change on the transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date		-	-	-	3,256
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date		-	-	-	(807)
Exchange differences arising on translation of foreign operations		2,307	8,051	16,693	(571)
Reclassification adjustments for the cumulative gain transferred to profit or loss:					
- Release of exchange translation reserve upon deregistration of subsidiaries		-	98	-	98
Total other comprehensive income for the period		<u>2,307</u>	<u>8,149</u>	<u>16,693</u>	<u>2,453</u>
Total comprehensive income for the period		<u>21,617</u>	<u>37,431</u>	<u>64,725</u>	<u>44,188</u>
Profit (loss) attributable to:					
Owners of the Company		19,536	30,269	48,668	37,911
Non-controlling interests		(226)	(987)	(636)	3,824
		<u>19,310</u>	<u>29,282</u>	<u>48,032</u>	<u>41,735</u>
Total comprehensive income (expenses) attributable to:					
Owners of the Company		21,747	38,044	63,851	41,012
Non-controlling interests		(130)	(613)	874	3,176
		<u>21,617</u>	<u>37,431</u>	<u>64,725</u>	<u>44,188</u>
Earnings per share	6				
Basic (HK cents)		0.67	1.34	1.68	1.68
Diluted (HK cents)		0.67	1.34	1.67	1.68

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2013

1. BASIS OF PREPARATION

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

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in preparing the annual audited financial statements for the nine months ended 31 December 2012.

The Group has adopted new and amended standards and interpretations of HKFRS which are mandatory for the accounting periods beginning on or after 1 January 2013 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated third quarterly financial information and does not result in substantial changes to the Group’s accounting policies.

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

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

2. REVENUE

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

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

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

3. INCOME TAX EXPENSE

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

4. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

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

5. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend payment of an interim dividend for the nine months ended 30 September 2013 (2012: nil).

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Three Months ended 30 September		Nine months ended 30 September	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited) (Restated)
Earnings				
Earnings for the purpose of basic earnings and diluted earnings per share	<u>19,536</u>	30,269	<u>48,668</u>	<u>37,911</u>
Number of shares	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,902,827	2,259,430	2,902,827	2,259,430
Effect of dilutive potential ordinary shares: Share options (<i>note</i>)	<u>17,482</u>	–	<u>14,175</u>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,920,309</u>	<u>2,259,430</u>	<u>2,917,002</u>	<u>2,259,430</u>

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

Note: The calculation of diluted earnings per share for the nine months ended 30 September 2012 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the nine months ended 30 September 2012.

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

For the nine months ended 30 September 2013

	Attributable to owners of the Company											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	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
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
At 1 January 2012 (previously reported)	161,094	624,541	2,743	21,562	154,379	(1,694)	32,235	29,293	36,399	31,617	1,092,169	30,791	1,122,960
Restatement of prior periods and opening balances	(2)	-	(532)	-	2	-	-	-	8	(163)	(687)	279	(408)
At 1 January 2012 (unaudited, restated)	161,092	624,541	2,211	21,562	154,381	(1,694)	32,235	29,293	36,407	31,454	1,091,482	31,070	1,122,552
Profit for the period	-	-	-	-	-	-	-	-	-	37,911	37,911	3,824	41,735
Other comprehensive income (expenses) for the period:													
Gain on leasehold land and building revaluation	-	-	-	477	-	-	-	-	-	-	477	-	477
Fair value change on the transfer of prepaid lease payments and property, plant and equipment to investment properties at transfer date	-	-	-	3,256	-	-	-	-	-	-	3,256	-	3,256
Deferred tax on fair value change on the transferred prepaid lease payments and property, plant and equipment at transfer date	-	-	-	(807)	-	-	-	-	-	-	(807)	-	(807)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	77	-	77	(648)	(571)
Reclassification adjustments for the cumulative loss transferred to profit or loss:													
- release of exchange translation reserve upon deregistration of subsidiaries	-	-	-	-	-	-	-	-	98	-	98	-	98
Total other comprehensive income (expense) for the period	-	-	-	2,926	-	-	-	-	175	-	3,101	(648)	2,453
Total comprehensive income for the period	-	-	-	2,926	-	-	-	-	175	37,911	41,012	3,176	44,188
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	773	773
Recognition of share-based payment expenses	-	-	-	-	-	-	-	4,401	-	-	4,401	-	4,401
Share repurchased and cancelled (note f)	(826)	(3,191)	-	-	-	-	-	-	-	-	(4,017)	-	(4,017)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	3,494	3,494
Lapse of share option	-	-	-	-	-	-	-	(1,156)	-	1,156	-	-	-
Issue of subscription shares (note g)	65,935	282,565	-	-	-	-	-	-	-	-	348,500	-	348,500
Subscription shares issue expenses (note g)	-	(100)	-	-	-	-	-	-	-	-	(100)	-	(100)
At 30 September 2012 (unaudited)	<u>226,201</u>	<u>903,815</u>	<u>2,211</u>	<u>24,488</u>	<u>154,381</u>	<u>(1,694)</u>	<u>32,235</u>	<u>32,538</u>	<u>36,582</u>	<u>70,521</u>	<u>1,481,278</u>	<u>38,513</u>	<u>1,519,791</u>

Attributable to owners of the Company

	Share	Share	Assets			Special	Capital	Share-based	Exchange	Retained	Non-		Total
	capital	premium	Statutory	revaluation	Contributed	reserve	reserve	payment	translation	earnings	Total	controlling	equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
At 1 January 2013 (audited)	226,053	903,241	2,211	24,162	154,381	(1,694)	32,235	33,196	42,968	83,385	1,500,138	39,680	1,539,818
Profit for the period	-	-	-	-	-	-	-	-	-	48,668	48,668	(636)	48,032
Other comprehensive income for the period:													
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	15,183	-	15,183	1,510	16,693
Total other comprehensive income for the period	-	-	-	-	-	-	-	-	15,183	-	15,183	1,510	16,693
Total comprehensive income for the period	-	-	-	-	-	-	-	-	15,183	48,668	63,851	874	64,725
Recognition of share-based payment expenses	-	-	-	-	-	-	-	16,027	-	-	16,027	-	16,027
Dividends recognised as distribution	-	(11,611)	-	-	-	-	-	-	-	-	(11,611)	-	(11,611)
Appropriations	-	-	9	-	-	-	-	-	-	(9)	-	-	-
At 30 September 2013 (unaudited)	<u>226,053</u>	<u>891,630</u>	<u>2,220</u>	<u>24,162</u>	<u>154,381</u>	<u>(1,694)</u>	<u>32,235</u>	<u>49,223</u>	<u>58,151</u>	<u>132,044</u>	<u>1,568,405</u>	<u>40,554</u>	<u>1,608,959</u>

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.
- (e) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes in prior year.

- (f) During the nine months ended 30 September 2012, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of Purchase	No. of ordinary shares of US\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
September 2012	10,584,000	0.4	0.36	4,017

The above shares were cancelled upon repurchase.

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

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

As at 30 September 2013, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares					
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)		1.17%	28,700,000 (L)	72,774,000 (L)	2.51%
	Interest of spouse	10,074,000 (L)		0.35%	–		
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)		17.51%	23,300,000 (L)	532,321,000 (L)	18.34%
	Beneficial owner	508,300,000 (S)		17.51%	–	508,300,000 (S)	17.51%
	Interest of spouse	702,000 (L)		0.02%	–		
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:

- Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 shares and 28,700,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 10,074,000 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
- Mr. Xu Shengheng (“Mr. Xu”) is interested in 508,319,000 Shares and 23,300,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.
- 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.
- Mr. Wu Desheng is interested in 2,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Positions under Equity Derivatives

The Share Option Plan

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Plan") for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at 30 September 2013, the following directors of the Company were interested in the following options under the Share Option Plan:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 September 2013
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
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 September 2013, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 September 2013, persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions and Short Positions in Shares and Equity Derivatives

Name	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)	508,300,000 (S)	17.51%

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

Notes:

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

Save as disclosed above, as at 30 September 2013, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 30 September 2013, options to subscribe for an aggregate of 355,992,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 September 2013 were as follows:

Date of grant of share options	As at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 September 2013	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	70,492,000	-	-	-	70,492,000	-	9 September 2010 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2011	9 September 2011 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2012 to 8 September 2020	0.4260
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2013 to 8 September 2020	0.4260
6 February 2013	-	31,900,000	-	-	31,900,000	-	6 February 2013 to 5 February 2015	0.4260
6 February 2013	-	158,600,000	-	-	158,600,000	6 February 2013 to 5 February 2014	6 February 2014 to 5 February 2015	0.4260
	<u>165,492,000</u>	<u>190,500,000</u>	<u>-</u>	<u>-</u>	<u>355,992,000</u>			

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Hu Zhaoguang and Mr. Wu Desheng. Mr. Jia Wenzeng is the chairman of the audit committee. The audit committee has reviewed the Group's unaudited results for the Review Period and has provided advice and comment thereon.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors during the Review Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Review Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

As at the date of this announcement, the Board comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Mr. Zhao Youmin and Mr. Daiqi as non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang as independent non-executive Directors.

By Order of the Board of
China Ground Source Energy Industry Group Limited
Zheng Qiyu
Chairman

Hong Kong, 5 November 2013

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of the Company at www.cgsenergy.com.hk.