



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



First Quarterly 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 was approximately HK\$108,806,000 for the Review Period.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$4,549,000.

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 2014 (the “Review Period”) and 31 March 2013.

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
– Shallow ground source energy utilisation system	107,889	36,241
– Properties investment	917	2,284
	108,806	38,525
Profit for the period	4,549	2,750
Profit attributable to owners of the Company	657	1,506

During the Review Period, the Group's revenue amounted to approximately HK\$107,889,000 which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$36,241,000 for the corresponding period last year. The revenue increased by approximately HK\$71,648,000 as compared with that of corresponding period last year, and the Group's gross profit margin increased from 28.3% in last corresponding period to 52.3% in the current period. The increase in revenue was mainly attributable to the fact that, in last year, the Group provided to its existing customers with free upgrade and transformation of the geothermal energy collection equipment 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 a number of projects with large contract sum and completed by stage in the period under review. The gross profit margin was approximately 28% in corresponding period last year which was mainly due to the increase in cost invested in the Group's collection equipment resulted by the free upgrade and transformation of the systems provided to customers. Excluding this one-off impact in last year, thus the gross profit margin restored during this quarter.

Other income increased from approximately HK\$1,062,000 in the corresponding period last year to approximately HK\$4,392,000 for the three months ended 31 March 2014. The increase was mainly attributable to the increase in interest income due to the increased bank balances for the period.

Selling and distribution expenses amounted to approximately HK\$6,184,000 and HK\$30,919,000 for the three months ended 31 March 2014 and 2013 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 in one off so as to optimizing/improving of the customers' shallow ground source energy utilisation system during the three months ended 31 March 2013, thereby enhancing the promotional effect. Excluding this one-off impact in last year, thus the selling and distribution expenses dropped in this quarter.

During the Review Period, administrative expenses increased by approximately HK\$6,241,000, or 31.3% as compared with that of three months ended 31 March 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, 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 (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\$11,986,000 for the three months ended 31 March 2014 as compared with approximately HK\$1,301,000 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\$657,000 for the three months ended 31 March 2014 (2013: HK\$1,506,000).

BUSINESS REVIEW AND OUTLOOK

While focusing on the scientific research and promotion of the utilization of shallow ground source energy as alternative energy to provide heating for buildings, the industrialization of the Group's indigenous "single well heat exchange circulation system for ground source energy collection technology", has realized the all-around upgrading of the traditional heating industry with combustion, emission and pollution impacts into an emerging industry of integrated heating and cooling system with shallow ground source energy featuring zero combustion, emission and pollution.

Industrialization of indigenous technologies is the foundation underlying all efforts to build up the country, and sound development of industries is the route to national rejuvenation. While the Group's businesses are progressing steadily, China Ground Source Energy Press Ltd., a subsidiary of the Group, has published a bilingual technical journal, namely "China Ground Source Energy" which aims at popularizing knowledge and information, research and development results and new industrial trend in development and utilization of shallow ground source energy. The first issue was published and circulated during the period which has been well received by the industry. The editorial board of "China Ground Source Energy" was formed by the experts of the industry. The mission of the journal is as follow:

1. to offer ideas and suggestions for the government in making energy decision, formulate a forum for designers and users in heating and cooling sectors to fully exchange views; and present scientific and technological knowledge and information for the general public to better understand the new industry of integrated heating and cooling system with shallow ground source energy.
2. to disseminate the expertise of providing heating and cooling with free ground source energy at cost of very small amount of electricity, and present projects using ground source energy to achieve integrated provision of heating and cooling for buildings in a combustion-free manner at a cost similar to traditional heating systems.
3. to pursue harmony and coexistence between human beings and the nature and constitute a propagation platform for graded and scientific utilization of energies.

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 2014 together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	Notes	Three months ended 31 March	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	2	108,806	38,525
Cost of sales		(51,948)	(27,618)
Gross profit		56,858	10,907
Other income		4,392	1,062
Selling and distribution expenses		(6,184)	(30,919)
Administrative expenses		(26,185)	(19,944)
Gain on disposal of a portion of investment properties		–	51,573
Profit from operations		28,881	12,679
Share of results of associates		(1,100)	(197)
Share-based payments		(1,371)	(6,707)
Loss on deemed disposal of an associate		(5,877)	–
Finance costs	3	(11,986)	(1,301)
Profit before tax		8,547	4,474
Income tax expense	4	(3,998)	(1,724)
Profit for the period	5	4,549	2,750
Other comprehensive (expense) income for the period:			
Exchange differences arising on translation of foreign operation		(24,492)	4,175
Total comprehensive (expense) income for the period		(19,943)	6,925

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

For the three months ended 31 March 2014

	Notes	Three months ended 31 March	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit attributable to:			
Owners of the Company		657	1,506
Non-controlling interests		3,892	1,244
		4,549	2,750
Total comprehensive (expense) income attributable to:			
Owners of the Company		(22,361)	5,489
Non-controlling interests		2,418	1,436
		(19,943)	6,925
Earnings per share	7		
Basic (HK cents)		0.023	0.052
Diluted (HK cents)		0.023	0.052

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2014

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 2013.

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 2014 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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Shallow ground source energy utilisation system	107,889	36,241
Rental income	917	2,284
	<hr/>	<hr/>
	108,806	38,525

3. FINANCE COSTS

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years	11,788	–
Imputed interest expense on receipt in advance	198	1,301
	<hr/>	<hr/>
	11,986	1,301

4. INCOME TAX EXPENSE

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax	3,998	1,724

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 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 three months ended 31 March 2014.

5. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of sales	51,647	26,472
Staff costs (including directors' emolument)	17,227	13,291
Depreciation and amortisation	3,929	1,353
Minimum lease payments under operating leases in respect of land and buildings	3,051	3,077

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 2014 (2013: 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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic earnings and diluted earnings per share	657	1,506
Number of shares		
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,902,827	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	2,902,827	2,902,827

Note:

The calculation of diluted earnings per share for the three months ended 31 March 2014 and 2013 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 2014 and 2013.

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

For the three months ended 31 March 2014

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note a)	(Note b)		(Note c)	(Note d)	(Note e)						
At 1 January 2013 (audited)	226,053	903,241	2,211	24,162	154,381	(1,694)	32,235	33,196	42,968	83,385	1,500,138	39,680	1,539,818
Profit for the period	-	-	-	-	-	-	-	-	-	1,506	1,506	1,244	2,750
Other comprehensive income for the period:													
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	3,983	-	3,983	192	4,175
Total comprehensive income for the period	-	-	-	-	-	-	-	-	3,983	1,506	5,489	1,436	6,925
Recognition of share-based payment expenses	-	-	-	-	-	-	-	6,707	-	-	6,707	-	6,707
Appropriations	-	-	9	-	-	-	-	-	-	(9)	-	-	-
At 31 March 2013 (unaudited)	226,053	903,241	2,220	24,162	154,381	(1,694)	32,235	39,903	46,951	84,882	1,512,334	41,116	1,553,450

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

For the three months ended 31 March 2014

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Assets revaluation reserve	Contributed surplus	Special reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)	(Note b)			(Note c)	(Note d)	(Note e)						
At 1 January 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 (expenses) 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

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) Contributed surplus represents the cancellation of the paid-up capital and set off against the accumulated losses in prior years.
- (d) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests in prior years.
- (e) 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. This 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 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)	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:

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 31 March 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 31 March 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 31 March 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 31 March 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:

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 31 March 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 31 March 2014, options to subscribe for an aggregate of 352,492,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 31 March 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 31 March 2014	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
9 September 2010	66,992,000	-	-	-	66,992,000	-	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	-	-	-	352,492,000			

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.

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, 9 May 2014