



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 2014**

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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\$200,581,000 for the Review Period.

Net profit after tax of the Group for the Review Period amounted to approximately HK\$2,582,000.

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 nine months ended 30 September 2014 (“Review Period”) and the nine months ended 30 September 2013.

| | Three Months | | Nine months | |
|--|---------------------------|-----------------|---------------------------|-----------------|
| | ended 30 September | | ended 30 September | |
| | 2014 | 2013 | 2014 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | | | | |
| – Shallow ground source energy utilisation system | 63,289 | 98,693 | 197,577 | 227,880 |
| – Rental income | 1,015 | 2,319 | 3,004 | 6,914 |
| Total revenue | 64,304 | 101,012 | 200,581 | 234,794 |
| (Loss) profit for the period | (6,321) | 19,310 | 2,582 | 48,032 |
| (Loss) profit attributable to owners of the Company | (2,533) | 19,536 | 270 | 48,668 |

During the Review Period, the Group’s revenue amounted to approximately HK\$197,577,000 which was mainly contributed by shallow ground source energy utilisation business as compared with that of approximately HK\$227,880,000 for the corresponding period last year. The revenue decreased by approximately HK\$30,303,000 as compared with that of corresponding period last year. The decrease in revenue was mainly attributable to the fact that, the Group explored the market in districts other than Beijing which required more time for the discussion of the corporation, so that the revenue and work done was slow down as compared with last year. The Group’s gross profit margin decreased from 59.7% in last corresponding period to 42.3% in the current period, that was mainly due to the expansion of business in districts other than Beijing with more competitive prices; and the increase in costs relating to the delivery of tools and equipments as well as the travelling expenses incurred by the business carried outside the core operating districts which caused the decrease in gross profit margin.

Other income increased from approximately HK\$4,964,000 in the corresponding period last year to approximately HK\$87,075,000 for the nine months ended 30 September 2014. The increase was mainly attributable to the one-off government incentives for development of the integration of heating and cooling emerging industry and the increase in interest income due to the increased bank balances for the Review Period.

Selling and distribution expenses amounted to approximately HK\$20,403,000 and HK\$33,256,000 for the nine months ended 30 September 2014 and 2013 respectively. In order to ensure the completed projects to meet the new standards, the Group committed to provide an one-off free modification, installation and testing of the customers' shallow ground source energy collection equipment so as to optimizing/improving of the customers' shallow ground source energy utilisation system during the nine months ended 30 September 2013, thereby enhancing the promotional effect. Excluding this one-off impact in last year, thus the selling and distribution expenses dropped in this Review Period.

During the Review Period, administrative expenses increased by approximately HK\$10,316,000 or 15.4% as compared with that of nine months ended 30 September 2013. Administrative expenses increased mainly due to the increase in staff costs and depreciation expenses arising from the Beijing office which was acquired at the end of last year.

During the Review Period, 恒有源科技發展集團有限公司, a subsidiary of the Group, completed the acquisition of the remaining 62.03% equity interest 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.

On August 11, 2014, the Group granted 282,000,000 shares of share options to directors, officers, employees and business partners, resulting in an increase in share-based payments during the three months ended 30 September 2014.

Finance costs amounted to HK\$33,409,000 for the nine months ended 30 September 2014 as compared with approximately HK\$4,216,000 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\$270,000 for the nine months ended 30 September 2014 (2013: profit attributable to owners of the Company was approximately HK\$48,668,000). The decrease in profit attributable to owners was due to the decrease in gross profit and increase in finance costs.

BUSINESS REVIEW AND OUTLOOK

Under the Beijing – Hongkong integrated management framework, the Group focuses on the research, development and promotion of shallow ground source energy as alternative energy to provide heating for buildings and is committed to the industrialization development of the original technology which can accelerate the all-around upgrade and transformation of the traditional heating industry with combustion, emissions and pollution to an emerging industry of integrated heating and cooling system with shallow ground source energy featuring zero combustion, emissions and pollution. It can realize the ecological civilization construction and promote the upgrading of traditional industries to form a new way for China to tackle the haze problem.

During the period under review, the Group's core businesses have been developed steadily and have signed many new contracts for Ground Source Heat Pump System. Year 2014 planning has preliminarily been implemented in the key region of Jiangsu province of our national layout of Combustion-free Integrated Heating and Cooling of Ground Source Energy Industrial Park, the Group has signed the cooperation agreements with four provincial governments to kick off the industrial development so as to facilitate the government to tackle the haze problem. The governments support the regional promotion of heating supply for the buildings in a manner of nil-combustion.

Through years of painstaking research and development, Ground Source Heating Device is a combustion-free heating equipment that developed to serve the rural households. It went through technical research and development, small scale experiments and medium scale demonstration and finally formed four product series A, B, C and D. The standardized product series that can service area of 50-1000 square meters has become an important part of the promotion and development of the Group's emerging industry of Combustion-free integrated heating and cooling system with shallow ground source energy. In order to facilitate the products promotion, the Group adopts the agency business model to carry out the market operation which is an innovative development mode. We will recruit qualified agents in different regions and establish demonstration projects so as to motivate the users in the rural areas and cities within the regions to actively participate in the promotion of products and will be able to experience the uplift of the quality of life by the heating/cooling supply with ground source energy.

With the development of the business models of the Group and the industrial chain has been continuously enhanced which has further raised the Group's core competitiveness. With our management team's unremitting efforts, we believe the Group's operating performance will be further improved.

FINANCIAL RESULTS

The Board of Directors (the “Board”) of China Ground Source Energy Industry Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 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 nine months ended 30 September 2014

| | Notes | Three Months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2014 HK\$'000 (Unaudited) | 2013 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) | 2013 HK\$'000 (Unaudited) |
| Revenue | 2 | 64,304 | 101,012 | 200,581 | 234,794 |
| Cost of sales | | (38,222) | (35,028) | (115,834) | (94,621) |
| Gross profit | | 26,082 | 65,984 | 84,747 | 140,173 |
| Other income | | 35,625 | 601 | 87,075 | 4,964 |
| Selling and distribution expenses | | (7,233) | (654) | (20,403) | (33,256) |
| Administrative expenses | | (29,630) | (22,786) | (77,264) | (66,948) |
| Gain on disposal of a portion of investment properties | | – | – | – | 51,573 |
| Fair value changes on investment properties | | – | – | 6,481 | 7,757 |
| Profit from operations | | 24,844 | 43,145 | 80,636 | 104,263 |
| Share of results of associates | | (605) | (2,418) | (2,250) | (2,339) |
| Share-based payments | | (12,589) | (4,550) | (13,960) | (16,027) |
| Loss on deemed disposal of an associate | | – | – | (5,877) | – |
| Finance costs | | (6,349) | (1,623) | (33,409) | (4,216) |
| Profit before tax | | 5,301 | 34,554 | 25,140 | 81,681 |
| Income tax expense | 3 | (11,622) | (15,244) | (22,558) | (33,649) |
| (Loss) profit for the period | 4 | (6,321) | 19,310 | 2,582 | 48,032 |

| | Three Months | | Nine months | |
|---|--------------------|---------------|--------------------|---------------|
| | ended 30 September | | ended 30 September | |
| Notes | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Other comprehensive income (expense): | | | | |
| Exchange differences arising on translation of foreign operations | <u>6,516</u> | <u>2,307</u> | <u>(17,511)</u> | <u>16,693</u> |
| Total other comprehensive income (expenses) for the period | <u>6,516</u> | <u>2,307</u> | <u>(17,511)</u> | <u>16,693</u> |
| Total comprehensive income (expenses) for the period | <u>195</u> | <u>21,617</u> | <u>(14,929)</u> | <u>64,725</u> |
| (Loss) profit attributable to: | | | | |
| Owners of the Company | (2,533) | 19,536 | 270 | 48,668 |
| Non-controlling interests | <u>(3,788)</u> | <u>(226)</u> | <u>2,312</u> | <u>(636)</u> |
| | <u>(6,321)</u> | <u>19,310</u> | <u>2,582</u> | <u>48,032</u> |
| Total comprehensive income (expenses) attributable to: | | | | |
| Owners of the Company | 3,462 | 21,747 | (16,329) | 63,851 |
| Non-controlling interests | <u>(3,267)</u> | <u>(130)</u> | <u>1,400</u> | <u>874</u> |
| | <u>195</u> | <u>21,617</u> | <u>(14,929)</u> | <u>64,725</u> |
| (Loss) earnings per share | 6 | | | |
| Basic (HK cents) | (0.087) | 0.673 | 0.009 | 1.677 |
| Diluted (HK cents) | (0.087) | 0.669 | 0.009 | 1.668 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 (“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 year ended 31 December 2013.

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 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 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 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 | | Nine months | |
|---|--------------------|--------------------|--------------------|--------------------|
| | ended 30 September | ended 30 September | ended 30 September | ended 30 September |
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$’000 | HK\$’000 | HK\$’000 | HK\$’000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Shallow ground source energy utilisation system | 63,289 | 98,693 | 197,577 | 227,880 |
| Rental income | 1,015 | 2,319 | 3,004 | 6,914 |
| | 64,304 | 101,012 | 200,581 | 234,794 |

3. INCOME TAX EXPENSE

| | Three Months ended 30 September | | Nine months ended 30 September | |
|---------------------------|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| PRC enterprise income tax | 11,622 | 15,244 | 20,914 | 31,709 |
| Deferred tax | — | — | 1,644 | 1,940 |
| | <u>11,622</u> | <u>15,244</u> | <u>22,558</u> | <u>33,649</u> |

4. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period is arrived at after charging:

| | Three Months ended 30 September | | Nine months ended 30 September | |
|---|--|--|--|--|
| | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) | 2013 <i>HK\$'000</i> (Unaudited) |
| Cost of sales | 37,439 | 34,395 | 114,019 | 92,191 |
| Staff costs (including directors' emolument) | 16,905 | 12,454 | 45,066 | 35,510 |
| Depreciation and amortisation | 4,311 | 1,289 | 11,526 | 3,606 |
| Minimum lease payments under operating leases in respect of land and buildings | 2,202 | 5,468 | 7,080 | 11,746 |
| | <u>37,439</u> | <u>34,395</u> | <u>114,019</u> | <u>92,191</u> |
| | <u>16,905</u> | <u>12,454</u> | <u>45,066</u> | <u>35,510</u> |
| | <u>4,311</u> | <u>1,289</u> | <u>11,526</u> | <u>3,606</u> |
| | <u>2,202</u> | <u>5,468</u> | <u>7,080</u> | <u>11,746</u> |

5. DIVIDENDS

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

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

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

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) 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 | |
|---|------------------------------------|------------------|-----------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| (Loss) earnings | | | | |
| (Loss) earnings for the purpose of basic and diluted (loss) earnings per share | <u>(2,533)</u> | <u>19,536</u> | <u>270</u> | <u>48,668</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 (loss) earnings per share | 2,903,176 | 2,902,827 | 2,903,176 | 2,902,827 |
| Effect of dilutive potential ordinary shares: | | | | |
| Share options | <u>8,651</u> | <u>17,482</u> | <u>6,599</u> | <u>14,175</u> |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | <u>2,911,827</u> | <u>2,920,309</u> | <u>2,909,775</u> | <u>2,917,002</u> |

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share (2013: earnings per share).

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

For the nine months ended 30 September 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 (loss) 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> |

Attributable to owners of the Company

| | Assets | | | | | | | | | | Non-controlling interests | Total equity | |
|---|----------------|----------------|-------------------|---------------------|---------------------|-----------------|-----------------|-----------------------------|------------------------------|-------------------|---------------------------|---------------|------------------|
| | Share capital | Share premium | Statutory reserve | 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 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 | - | - | - | - | - | - | - | - | - | 270 | 270 | 2,312 | 2,582 |
| Other comprehensive expense for the period: | | | | | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | - | - | (16,599) | - | (16,599) | (912) | (17,511) |
| Total other comprehensive expense for the period | - | - | - | - | - | - | - | - | (16,599) | - | (16,599) | (912) | (17,511) |
| Total comprehensive (expense) income for the period | - | - | - | - | - | - | - | - | (16,599) | 270 | (16,329) | 1,400 | (14,929) |
| Recognition of share-based payment expenses | - | - | - | - | - | - | - | 13,960 | - | - | 13,960 | - | 13,960 |
| Issue of shares upon exercise of share options | 117 | 803 | - | - | - | - | - | (282) | - | - | 638 | - | 638 |
| Lapse of share option | - | - | - | - | - | - | - | (752) | - | 752 | - | - | - |
| Appropriation | - | - | 589 | - | - | - | - | - | - | (589) | - | - | - |
| Dividends recognised as distribution (note 5) | - | (14,514) | - | - | - | - | - | - | - | - | (14,514) | - | (14,514) |
| At 30 September 2014 (Unaudited) | <u>226,170</u> | <u>877,919</u> | <u>2,935</u> | <u>25,255</u> | <u>154,381</u> | <u>(1,694)</u> | <u>32,235</u> | <u>65,898</u> | <u>57,412</u> | <u>185,856</u> | <u>1,626,367</u> | <u>39,358</u> | <u>1,665,725</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 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.

8. ACQUISITION OF A SUBSIDIARY

On 24 January 2014, the acquisition of the remaining 62.03% equity interest of 恒有源投資管理有限公司(「恒有源投資」) by 恒有源科技發展集團有限公司(「恒有源」), a subsidiary of the Group, from 北京市四博連通用機械新技術公司「四博連」, a related company of the Group, at cash consideration of RMB49,000,000 (equivalent to approximately HK\$62,779,000) was completed. The Group's equity interest in 恒有源投資 had been increased from 37.97% to 100% and 恒有源投資 became a wholly-owned subsidiary of the Group. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was approximately RMB15,840,000 (equivalent to approximately HK\$20,294,000). 恒有源投資 is principally engaged in business planning, consulting and management services and promotion. 恒有源投資 was acquired to act as investment platform for the future expansion of the Group's investment operations.

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

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

Goodwill arising on acquisition:

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

Net cash outflow arising on acquisition:

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

Impact of acquisition on the results of the Group

Included in the profit for the period is approximately HK\$7,807,000 (equivalent to approximately RMB6,223,000) loss attributable to 恒有源投資. No revenue for the period is attributable to 恒有源投資.

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

As at 30 September 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% | 43,700,000 (L) | 87,774,000 (L) | 3.02% |
| | Interest of spouse | 10,074,000 (L) | | 0.35% | - | | |
| Mr. Xu Shengheng (Note 2) | Beneficial owner | 508,319,000 (L) | | 17.50% | 34,284,000 (L) | 543,305,000 (L) | 18.71% |
| | Beneficial owner | 508,300,000 (S) | | 17.50% | - | 508,300,000 (S) | 17.50% |
| | Interest of spouse | 702,000 (L) | | 0.02% | - | | |
| Mr. Jia Wenzeng (Note 3) | Beneficial owner | - | | - | 5,500,000 (L) | 5,500,000 (L) | 0.19% |
| Mr. Wu Desheng (Note 4) | Beneficial owner | - | | - | 4,000,000 (L) | 4,000,000 (L) | 0.14% |

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

Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 shares and 43,700,000 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 34,284,000 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 5,500,000 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.
4. Mr. Wu Desheng 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.

(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 2014, the following directors of the Company were interested in the following options under the Share Option Plan:

| Name of director | Date of grant | Exercise period | Exercise price per share HK\$ | Number of share options outstanding as at 30 September 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 |
| | 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 |
| | 6 February 2013 | 6 February 2013 to 5 February 2015 | 0.426 | 11,700,000 |
| | 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 |
| | 6 February 2013 | 6 February 2013 to 5 February 2015 | 0.426 | 2,500,000 |
| | 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 | 6 February 2013 | 6 February 2013 to 5 February 2015 | 0.426 | 2,500,000 |
| | 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 |

Save as disclosed above, as at 30 September 2014, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 September 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 (<i>Note 1</i>) | Beneficial owner | 850,000,000 (L) | | 29.27% | – | 850,000,000 (L) | 29.27% |
| China Energy Conservation and Environmental Protection Group (<i>Note 1</i>) | Interest of controlled corporation | 850,000,000 (L) | | 29.27% | – | 850,000,000 (L) | 29.27% |
| Ms. Luk Hoi Man (<i>Note 2</i>) | Beneficial owner | 702,000 (L) | | 0.02% | – | | |
| | Interest of spouse | 508,319,000 (L) | | 17.50% | 34,284,000 (L) | 543,305,000 (L) | 18.71% |
| | Interest of spouse | 508,300,000 (S) | | 17.50% | – | 508,300,000 (S) | 17.50% |

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

Notes:

- China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP”), therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.
- Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 34,284,000 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 34,284,000 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 2014, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

As at 30 September 2014, options to subscribe for an aggregate of 628,992,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 September 2014 were as follows:

| Date of grant of share options | As at 1 January 2014 | Granted during the period | Exercised during the period | Lapsed during the period | As at 30 September 2014 | Vesting period of share options | Exercise period of share options | Exercise price per share HK\$ |
|--------------------------------|----------------------|---------------------------|-----------------------------|--------------------------|-------------------------|--------------------------------------|--------------------------------------|-------------------------------|
| 9 September 2010 | 66,992,000 | - | 1,500,000 | 4,000,000 | 61,492,000 | - | 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 | 31,900,000 | - | - | - | 31,900,000 | - | 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 |
| | <u>352,492,000</u> | <u>282,000,000</u> | <u>1,500,000</u> | <u>4,000,000</u> | <u>628,992,000</u> | | | |

CHANGE OF DIRECTOR AND MEMBERS OF THE BOARD COMMITTEES

During the Review Period, Mr. Hu Zhaoguang resigned as an independent non-executive Director, chairman of remuneration committee and members of audit committee and nomination committee of the Company with effect from 2 September 2014. Mr. Zhang Honghai was appointed as an independent non-executive Director, chairman of remuneration committee and members of audit committee and nomination committee of the Company with effect from 2 September 2014.

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, 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. Zhang Honghai as independent non-executive Directors.

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

Hong Kong, 13 November 2014

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.