



Third Quarterly Report  
2008/09

**CGS**

**CHINA GROUND SOURCE ENERGY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 8128

## **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 report, for which the directors of China Ground Source Energy Limited 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to China Ground Source Energy Limited. The directors of China Ground Source Energy Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

Revenue recorded approximately HK\$193.6 million for the Review Period.

Loss attributable to equity holder of the Company for the Review Period amounted to approximately HK\$38.0 million.

No dividend was declared for the Review Period.

## FINANCIAL REVIEW

On 30 June 2009, II Networks International Limited, a wholly owned subsidiary of China Ground Source Energy Limited (the “Company”) entered into a conditional sale and purchase agreement (the “Agreement”) to dispose the entire equity interest of Future Frontier Limited and its subsidiaries to a purchaser (the “Disposal”). Following the Disposal, the transmission business is no longer an ongoing operation of the Company together with its subsidiaries (collectively the “Group”). As a result, the Group will then principally engage in the two businesses, namely shallow ground energy utilisation and environmental protection.

During the nine months ended 30 June 2009 (the “Review Period”), the turnover of the Group comprised of two segments, namely shallow ground energy utilisation and environmental protection. As the merger and acquisition of the shallow ground energy business was completed on 31 March 2008, hence, the results of this business segment only covered a three-month period for the third quarterly results of last year. Accordingly, the turnover of the Group increased significantly by approximately 170% to HK\$193.6 million, as compared to approximately HK\$71.3 million over the same period last year.

The gross profit margin of the Group decreased from approximately 30% over the same period last year to approximately 21% for the Review Period. The decrease in the gross profit margin was due to the inclusion of the only three-month-period results of the shallow ground energy business in the financial statements for the corresponding period last year (where the acquisition of such business was completed for the period last year) and the difference in the gross profit margins of shallow ground energy utilisation business and environmental protection business.

During the Review Period, the sales and distribution costs of the Group was approximately HK\$9.4 million, substantially increased from approximately HK\$3.8 million for the corresponding period last year, mainly due to the substantial increase in the business volume.

During the Review Period, the Group's administrative expenses rose sharply to approximately HK\$46.8 million, as compared to approximately HK\$19.1 million for the corresponding period last year. The increase in the administrative expenses was also attributable to the inclusion of the only three-month-period results of the shallow ground energy business for the corresponding period last year.

Due to the write-off of bad debts in respect of a defaulted payment by a Purchaser on the disposal of financial assets for the last financial year and the provision for the imputed interests on the convertible notes issued, the consolidated results attributable to the shareholders of the Group recorded a turnaround from a profit of approximately HK\$45.4 million over the same period last year to a loss of approximately HK\$38.0 million during the Review Period.

## **BUSINESS REVIEW AND PROSPECTS**

### **SHALLOW GROUND ENERGY UTILISATION**

Combined with its exclusive single well circulation ground heat exchange technology and the buried pipe ground source energy technology in accordance with the international standards, Beijing Enterprises Ever Source Limited ("BEES") ensures effective energy generation in the utilisation area in a pollution free manner across different regions and under any geological conditions. This has enabled ground source energy, a new and little known energy resource, to become the sole renewable energy resource as the alternative energy for heating.

BEES possesses the core technology of HYY ground source energy heat pump system where ground source energy is used as the alternative energy for heating, so as to provide heating and cooling for buildings as well as heating of domestic hot water. With the initial investment and operating costs equivalent to those of the traditional energy resources, ground source energy effectively ensures the market operations and enhances the market competitiveness of the enterprises. Currently, the buildings that utilize ground source energy for heating in China occupy an area of over 6 million square meters covering 19 provinces, cities and autonomous regions. The model projects in Mongolia and the US are also under smooth and stable operation.

In order to further enhance the business development of BEES, we have made in-depth research on the investment and development of low-carbon eco-property model projects primarily using shallow ground energy as alternative energy for heating. As it's in line with the energy saving and environmental protection policy of the PRC government and will effectively promote the application of shallow ground energy as alternative energy in urban and rural area, the Company expects that there will be strong growth potential for the shallow ground energy utilisation business.

The effective adjustment of the Company's commercial model has further refined and accelerated the marketing of ground source energy as the alternative energy for heating under such new conditions. The operating income derived from the achievements of its patent technology and the synergies generated from the energy contract management have become the major profit growth points of the Company since then.

#### ENVIRONMENTAL PROTECTION

The Company's environmental protection business maintained steady growth. During the period under review, the first delivery of carbon emission reduction indicator was completed for the clean development mechanism ("CDM") project of Xiaping landfill site. It's expected that the second delivery will be completed during the year. The production of landfill gas also achieved healthy growth through the development and maintenance of the landfill gas system. The Company expects that the revenue from the CDM project and landfill gas integrated utilisation project will grow steadily in the future.

As influenced by an integrated transformation of the Guanlan River, sewage processing volume has declined to a certain extent. Following the transformation completes, it's expected that the sewage treatment business will return to normal levels in the next reporting period.

The domestic waste and incineration ash treatment project in Shenzhen city is still in the process of applying for the operating certifications in accordance with relevant state regulations. It will become the new source of business growth upon commencement of normal operation.

#### TRANSMISSION

II Networks International Limited, a wholly owned subsidiary of the Company, has entered into the Agreement on 30 June 2009. Pursuant to the Agreement, the Company will dispose of the entire equity interest of Future Frontier Limited and its subsidiaries, which is principally engaged in manufacturing and sale of communication cables and optical cables. Details of the proposed Disposal can be referred to the Company's circular dated 7 August 2009. The completion of the Disposal is subject to shareholders' approval in a general meeting. Upon its completion, the Company will then cease to carry the transmission business.

## FINANCIAL RESULTS

The Board of Directors (the "Board") of China Ground Source Energy 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 June 2009 together with the unaudited comparative figures for the corresponding periods in 2008 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 June		Nine months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
<b>Continuing Operations:</b>					
Revenue	2	68,844	57,758	193,571	71,341
Cost of sales		(56,469)	(41,570)	(153,771)	(50,252)
Gross profit		12,375	16,188	39,800	21,089
Other revenue		12,213	57,389	23,088	61,101
Selling and distribution costs		(2,133)	(3,822)	(9,376)	(3,822)
Administrative expenses		(15,191)	(12,671)	(46,755)	(19,132)
Other operating expenses		(26,860)	(81)	(27,387)	(685)
Profit/(loss) from operating activities		(19,596)	57,003	(20,630)	58,551
Share of results of associates and a jointly controlled equity		(132)	-	(618)	-
Finance costs		(7,748)	(2,356)	(21,403)	(2,430)
Profit/(loss) before tax	3	(27,476)	54,647	(42,651)	56,121
Income tax expense	4	792	(572)	1,991	(1,047)
Profit/(loss) after tax from continuing operations		(26,684)	54,075	(40,660)	55,074
Discontinued operations:					
Profit/(loss) after tax	5	(703)	(467)	(2,399)	163
Profit/(loss) for the period		(27,387)	53,608	(43,059)	55,237
Attributable to:					
Equity holders of the Company		(23,540)	44,056	(38,009)	45,376
Minority interests		(3,847)	9,552	(5,050)	9,861
Profit/(loss) for the period		(27,387)	53,608	(43,059)	55,237
Dividend	6	-	-	-	-
Earnings/(loss) per share					
From continuing and discontinued operations	7				
- Basic (HK cents)		(0.41)	0.78	(0.67)	1.04
- Diluted (HK cents)		N/A	0.65	N/A	0.83
From continuing operations					
- Basic (HK cents)		(0.41)	0.78	(0.65)	1.04
- Diluted (HK cents)		N/A	0.66	N/A	0.83

## 1. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with 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”).

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards and Interpretations (collectively, “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies adopted in the preparation of this financial statements are consistent with those adopted in preparing the annual audited financial statements for the year ended 30 September 2008.

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

Revenue represents the net invoiced value of goods sold, after allowances 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 June		Nine months ended 30 June	
	2009 HK\$’000 (Unaudited)	2008 HK\$’000 (Unaudited)	2009 HK\$’000 (Unaudited)	2008 HK\$’000 (Unaudited)
Shallow ground energy utilization	63,384	48,346	171,444	48,346
Environmental protection	5,460	9,412	22,127	22,995
	<b>68,844</b>	57,758	<b>193,571</b>	71,341
Discontinued operations:				
Transmission	16,778	20,480	55,520	73,730

### 3. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Three months ended 30 June		Nine months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Continuing operations:				
Cost of sales	56,468	41,570	153,771	50,252
Staff costs (including directors' emoluments)	7,132	7,104	23,450	10,353
Depreciation	2,784	4,225	6,332	5,339
Minimum lease payments under operating leases in respect of land and buildings	2,042	1,246	6,069	1,900
Write-off of other receivable of the disposed financial assets	26,693*	–	26,693*	–

\* Other operating expenses included the debt written off from other receivables of financial assets transacted during last financial year on defaulted payment by purchaser.

	Three months ended 30 June		Nine months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Discontinued operations:				
Cost of sales	15,165	17,210	50,115	63,206
Staff costs (including directors' emoluments)	182	204	547	691
Depreciation	229	289	788	866



**4. INCOME TAX EXPENSE**

	Three months ended 30 June		Nine months ended 30 June	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continued operations:				
– PRC corporate income tax	256	572	1,155	1,047
– Deferred tax	(1,048)	–	(3,146)	–
	(792)	572	(1,991)	1,047
Discontinued operations:				
– PRC corporate tax	–	628	–	628
	(792)	1,200	(1,991)	1,675

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the nine months ended 30 June 2009 (2008: Nil).

PRC corporate 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 nine months ended 30 June 2009 (2008: Nil).

Deferred tax represents the imputed interest incurred from the convertible notes amounting to approximately HK\$19,608,000 calculated at Hong Kong profits tax rate of 16.5%. Details of the convertible notes are set out in the Company's circulars dated 3 October 2007 and 29 February 2008.

**5. RESULTS OF DISCONTINUED OPERATIONS**

On 30 June 2009, II Networks International Limited, a wholly owned subsidiary of the Company entered into a conditional sale and purchase agreement for sale of the entire equity interest of Future Frontier Limited and its subsidiaries (the "Proposed Disposal"). Details of the Proposed Disposal are set out in the Company's circular dated 7 August 2009.

The unaudited consolidated results of the discontinued operations for the three months and nine months ended 30 June 2009 together with the unaudited comparative figures for the corresponding periods in 2008 are as follows:

	Three months ended 30 June		Nine months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue	<b>16,778</b>	20,480	<b>55,520</b>	73,730
Cost of sales	<b>(15,165)</b>	(17,210)	<b>(50,115)</b>	(63,206)
Gross profit	<b>1,613</b>	3,270	<b>5,405</b>	10,524
Other revenue	<b>368</b>	138	<b>1,460</b>	554
Selling and distribution costs	<b>(410)</b>	(1,008)	<b>(2,291)</b>	(3,547)
Administrative expenses	<b>(1,275)</b>	(1,453)	<b>(4,158)</b>	(4,570)
Profit/(loss) from operating activities	<b>296</b>	947	<b>416</b>	2,961
Finance costs	<b>(999)</b>	(786)	<b>(2,815)</b>	(2,170)
Profit/(loss) before tax	<b>(703)</b>	161	<b>(2,399)</b>	791
Income tax expense	<b>-</b>	(628)	<b>-</b>	(628)
Profit/(loss) after tax	<b>(703)</b>	(467)	<b>(2,399)</b>	163
Attributable to:				
Equity holders of the Company	<b>(359)</b>	(238)	<b>(1,223)</b>	83
Minority interests	<b>(344)</b>	(229)	<b>(1,176)</b>	80
Profit/(loss) for the period	<b>(703)</b>	(467)	<b>(2,399)</b>	163

## 6. DIVIDEND

The Board does not recommend payment of a dividend for the Review Period (2008: Nil).

**7. EARNINGS/(LOSS) PER SHARE**

The basic and diluted earnings/(loss) per share for the three months and nine months ended 30 June 2009 and 2008 are calculated as follow:

Three months ended 30 June		Nine months ended 30 June	
2009	2008	2009	2008
HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)

Profit/(loss) attributable to equity

holders of the Company for computation

of basic and diluted earnings/(loss) per share

– Continuing and discontinued operations	<b>(23,540)</b>	44,056	<b>(38,009)</b>	45,376
– Continuing operations	<b>(23,181)</b>	44,294	<b>(36,786)</b>	45,293

Three months ended 30 June		Nine months ended 30 June	
2009	2008	2009	2008
HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)

Weighted average number of

ordinary shares for computation of

basic earnings/(loss) per share	<b>5,714,223,581</b>	5,653,112,470	<b>5,673,482,840</b>	4,369,902,218
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Dilutive potential ordinary shares:

– Share options	–	19,000,000	–	19,000,000
– Convertible notes	–	1,080,000,000	–	1,080,000,000

Weighted average number of

ordinary shares for computation of

diluted earnings/(loss) per share	<b>5,714,223,581</b>	6,752,112,470	<b>5,673,482,840</b>	5,468,902,218
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**8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the nine months ended 30 June 2009

	Attributable to equity holders of the Company											
	Share capital	Share premium account	Convertible note equity reserve	Statutory reserve	Available-for-sale financial assets	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	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
At 1 October 2007	230,667	100,821	-	4	-	1,618	779	(1,084)	(202,037)	130,768	16,125	146,893
Issuance of new shares	210,268	415,809	-	-	-	-	-	-	-	626,077	-	626,077
Issuance of convertible notes	-	-	122,495	-	-	-	-	-	-	122,495	-	122,495
Deferred tax	-	-	(21,437)	-	-	-	-	-	-	(21,437)	-	(21,437)
Merger and acquisition of additional minority interests	-	-	-	-	15,354	16,093	-	-	(31,447)	-	81,697	81,697
Currency translation	-	-	-	-	-	-	-	10,277	-	10,277	-	10,277
Net profit/(loss) for the period	-	-	-	-	(15,354)	-	-	-	45,376	30,022	9,861	39,883
At 30 June 2008	440,935	516,630	101,058	4	-	17,711	779	9,193	(188,108)	898,202	107,683	1,005,885
At 1 October 2008	440,935	516,630	123,680	4	-	1,321	779	8,063	(192,867)	898,545	55,343	953,888
Issuance of new shares	85,800	(508)	-	-	-	-	-	-	-	85,292	-	85,292
Provision of statutory reserve during the period	-	-	-	284	-	-	-	-	(284)	-	-	-
Currency translation	-	-	-	-	-	-	-	(852)	-	(852)	515	(337)
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	(38,009)	(38,009)	(5,050)	(43,059)
At 30 June 2009	526,735	516,122	123,680	288	-	1,321	779	7,211	(231,160)	944,976	50,808	995,784

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

As at 30 June 2009, 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 POSITION IN SHARES

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity			Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives		
Ms. Chan Wai Kay, Katherine (Note 1)	Beneficial owner	–	–	55,000,000	95,296,000	– 1.41%
	Interest of spouse	40,296,000	0.71%	–		
Mr. Wu Shu Min (Note 2)	Beneficial owner	146,023,000	2.16%	68,000,000	214,023,000	3.17%
Mr. Xu Shengheng (Note 3)	Beneficial owner	1,019,760,000	15.10%	55,000,000	1,757,568,000	26.03%
	Interest of spouse	2,808,000	0.04%	–		
	Interest of controlled corporation	–	–	680,000,000		

## Notes:

- Ms. Chan Wai Kay, Katherine (“Ms. Chan”) is interested in 55,000,000 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. In addition, Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 40,296,000 shares of the Company (“Shares”). Under SFO, Ms. Chan is also deemed to be interested in 40,296,000 Shares in which Mr. Chow is interested.
- Mr. Wu Shu Min is interested in 146,023,000 Shares and 68,000,000 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. Xu Shengheng (“Mr. Xu”) holds 1,019,760,000 Shares and 55,000,000 share options of the Company. Ever Sincere Investment Ltd. (“Ever Sincere”) is 100% owned by Mr. Xu. Ms. Luk Hoi Man (“Ms. Luk”), is the spouse of Mr. Xu, holds 2,808,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in 1,019,760,000 Shares, 2,808,000 Shares in which Ms. Luk is interested, 680,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere and 55,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share option can be referred to part (b) of this section.

## (B) LONG POSITION UNDER EQUITY DERIVATIVES

*The Scheme*

On 22 November 2001, the Company conditionally adopted a share option scheme (the "Scheme") for a period of ten years from the date on which the Scheme was adopted. The Scheme became unconditional upon the listing of the Company's shares on the GEM of the Stock Exchange on 30 November 2001. Under the Scheme, the board of directors was authorised, at its absolute discretion, to grant options to employees, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company under the terms of the Scheme. As at 30 June 2009, the following director of the Company was interested in the following options under the Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2009
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.0826	55,000,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.0826	55,000,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	0.465	10,000,000
	5 June 2003	5 June 2003 to 21 December 2011	0.078	3,000,000
	23 June 2009	23 June 2009 to 21 December 2011	0.0826	55,000,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.0826	35,000,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.0826	15,000,000
Ms. Chan Man Kuen Laura	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.0826	5,000,000

Save as disclosed above, as at 30 June 2009, 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. At any time during the reporting period, there was no debt securities issued by the Group.

## INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 June 2009, 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

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
China Standard Limited (Note 1)	Beneficial owner	500,000,000	7.40%	400,000,000	900,000,000	13.33%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	525,716,000	7.78%	–	525,716,000	7.78%
Cheung Kwan (Note 2)	Beneficial owner	157,400,000	2.33%	–	683,716,000	10.12%
	Interest of controlled corporation	525,716,000	7.78%	–		
AIG Global Investment Corp. (Asia) Ltd.	Investment manager	389,000,000	5.76%	–	389,000,000	5.76%
Ever Sincere Investment Limited (Note 3)	Beneficial owner	–	–	680,000,000	680,000,000	10.07%
Luk Hoi Man (Note 4)	Beneficial owner	2,808,000	0.04%	–	1,757,568,000	26.03%
	Interest of spouse	1,019,760,000	15.10%	735,000,000		
Zeng Yi Xiang	Beneficial owner	338,000,000	5.01%	–	338,000,000	5.01%



Notes:

1. These are the consideration shares and conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
2. Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 683,116,000 Shares.
3. These are conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere Investment Limited ("Ever Sincere") pursuant to the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.
4. Ms. Luk Hoi Man ("Ms. Luk"), is the spouse of Mr. Xu Shengheng ("Mr. Xu"). Therefore, under SFO, Ms. Luk is deemed to be interested in 1,019,760,000 Shares and 735,000,000 underlying shares of the Company including 55,000,000 Share options that Mr. Xu is interested in otherwise than by virtue of interest of spouse.

Save as disclosed above, as at 30 June 2009, 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

### THE SCHEME

As at 30 June 2009, options to subscribe for an aggregate of 588,700,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2009 were as follows:

Date of grant of share options	As at 1 October 2008	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 30 June 2009	Exercise period of share options	Exercise price per share HK\$
1 March 2002	800,000	-	-	-	500,000	300,000	1 March 2002 to 21 December 2011	0.475
7 March 2002	10,000,000	-	-	-	-	10,000,000	7 March 2002 to 21 December 2011	0.465
5 June 2003	4,000,000	-	-	-	1,000,000	3,000,000	5 June 2003 to 21 December 2011	0.078
29 May 2007	12,500,000	-	-	-	1,500,000	11,000,000	29 May 2007 to 21 December 2011	0.214
23 June 2009	-	564,400,000	-	-	-	564,400,000	23 June 2009 to 21 December 2011	0.0826
	27,300,000	564,400,000	-	-	3,000,000	588,700,000		

## 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, Ms. Laura Chan Man Kuen and Mr. Paul Chow Wan Hoi. 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 Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.*

By Order of the Board of  
**China Ground Source Energy Limited**  
**Chan Wai Kay, Katherine**  
*Chairman*

Hong Kong, 14 August 2009