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CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



**2011
FIRST QUARTERLY
REPORT**



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This report, for which the directors (the “Directors”) of China Ground Source Energy 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 for the Review Period amounted to approximately HK\$57.3 million.

Profit attributable to owners of the Company for the Review Period amounted to approximately HK\$3.1 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

Revenues

	Three months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
<i>Continuing operations</i>		
Shallow ground energy utilization	57,273	50,412
Total revenues from continuing operations	57,273	50,412
<i>Discontinued operations</i>		
Sewage and marsh gas treatment income	–	10,143
Total revenues from discontinued operations	–	10,143

Total revenues from continuing operations for the three months ended 30 June 2011 (the “Review Period”) were approximately HK\$57 million, as compared with HK\$50 million for the three months ended 30 June 2010. The revenues of approximately HK\$10 million from discontinued operations for the three months ended 30 June 2010, was contributed by environmental protection segment, which was disposed of by the Group in August 2010.

Gross profit from the Group’s continuing operations for the Review Period was approximately HK\$25 million (30 June 2010: HK\$24 million).

Costs and Expenses

	Three months ended	
	30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Selling and distribution costs	1,703	2,120
Administrative expenses	16,419	12,481
Finance costs	–	4,118
Income tax	3,644	1,532
Share-based payment	3,200	–
Total	24,966	20,251

During the Review Period, the Group's administrative expenses increased by 31.5% when compared with the corresponding period of last year and such increase was mainly due to increase in staff costs. We believe that our success depends upon our ability to employ and retain management and technical personnel with the ability to design, utilize, and enhance our services and products.

Finance costs decreased by 100% to nil for the three months ended 30 June 2011 as compared with that of the corresponding period last year due to conversion of convertible notes to ordinary share capital on 14 September 2010.

Profit for the Review Period attributable to the equity holders of the Company was approximately HK\$3,092,000 (30 June 2010: HK\$3,838,000).

BUSINESS REVIEW AND OUTLOOK

The Group, through Ever Source Scientific and Technology Co., Ltd and its subsidiaries ("HYY"), currently focuses on the development and utilization of shallow ground energy, which mainly involves in the areas of energy and environmental science. The subsidiaries and key holding company of the Group have firmly pursued and focused on the scientific research of using ground source energy as an alternative energy for heating and the promotion of HYY ground source energy heat pump environmental systems. Due to its notable advantages over other renewable energies in terms of heating, shallow ground energy gains increasing awareness in the PRC, and becomes one of the technologies for the purpose of carrying out sustainable development strategies, materialising the construction of low carbon buildings with energy and land saving and ensuring the efficient implementation of low carbon heating and energy saving of buildings.



In order to realize the pre-determined target in energy conservation and emission reduction, the PRC government launched the energy contracting management, which is designed to industrialize energy conservation service through optimization of the industry chain on the demand side while adhering to the previous advocacy of energy saving. The Group aims to capture this historical opportunity to strengthen our energy contracting management business and make it a growth initiative of the Group.

HYY, the core enterprise of the Group, has achieved continuous growth in its market share since 2000. As an alternative energy for heating, the ground source energy has been promoted to over 20 cities and provinces in the PRC and applied to a gross floor area of over 8 million square meters. HYY ground source energy heat pump environmental systems of over 400MW have been successfully applied, which can substitute for more than 100,000 tonnes of standard coals each year, and hence reduce the emission of approximately 270,000 tonnes of carbon dioxide.

During this reporting period, the Company recorded satisfactory growth in its turnover over the same period last year, and successfully promoted 9.12MW of ground source energy as alternative source of energy for heating to several projects including Beijing Crab Island International Beer Culture Festival.

In addition, the Company will make great efforts to expand and improve the business model of promoting ground source energy as an alternative source of energy for heating, such as self-built demonstration leasing projects with application of ground source energy, Build, Operate and Transfer (“BOT”) energy station (heating/cooling) and energy contracting management, which have been put into implementation stage by stage.

Dalian Wanghaixingcheng, the Group’s first self-built demonstration leasing project with application of ground source energy, covers a total area of 96,000 square meters, which can promote about 10,000KW of ground source energy. This project is scheduled to commence construction in September this year. We believe all of these will contribute to the future results of the Group.

With increasing support from the PRC government to the utilization of renewable energy and improving public awareness on resource conservation and environmental protection, there will be more opportunities and greater potential for the development of our substitute energy business. New business model provides additional impetus for the development of our businesses and future profit growth. Looking forward, we are confident that our operating results will continue to improve.

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 ended 30 June 2011 together with the unaudited comparative figures for the corresponding period in 2010 as follows:

Condensed Consolidated statement of comprehensive income

For the three months ended 30 June 2011

		Three months ended 30 June	
	Notes	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Continuing operations:			
Revenue	2	57,273	50,412
Cost of sales		(32,303)	(25,917)
Gross profit		24,970	24,495
Other operating income		2,516	1,053
Selling and distribution costs		(1,703)	(2,120)
Administrative expenses		(16,419)	(12,481)
Profit from operations		9,364	10,947
Share of results of associates & jointly controlled entity		1,139	(137)
Share-based payments		(3,200)	–
Finance costs		–	(4,118)
Profit before tax	3	7,303	6,692
Income tax expense	4	(3,644)	(1,532)
Profit for the period from continuing operation		3,659	5,160

	Notes	Three months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Discontinued operations:			
Profit/(Loss) for the period from discontinued operations	5	–	(1,301)
Profit for the period		3,659	3,859
Other comprehensive income/(expense):			
Exchange differences arising on translation of foreign operations		444	(681)
Other comprehensive income/(expense) for the period		444	(681)
Total comprehensive income for the period		4,103	3,178
Profit Attributable to:			
Owners of the Company		3,092	3,838
Non-controlling interests		567	21
		3,659	3,859
Total comprehensive income attributable to:			
Equity holders of the Company		3,395	2,866
Non-controlling interests		708	312
		4,103	3,178
Earnings per share	6		
From continuing and discontinued operations:			
Basic (HK cents)		0.15	0.22
Diluted (HK cents)		0.15	0.22
From continuing operations:			
Basic (HK cents)		0.15	0.30
Diluted (HK cents)		0.15	0.29

Notes to account:

1. BASIS OF PREPARATION

The unaudited condensed consolidated results have been prepared in accordance with the applicable disclosure requirement 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").

The unaudited condensed 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 "HKICPA").

The accounting policies adopted in the preparation of this financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 March 2011.

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	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations:		
Shallow ground energy utilisation	57,273	50,412

3. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Three months ended	
	30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations:		
Cost of sales	32,303	25,917
Staff costs (including directors' emoluments)	8,693	6,632
Depreciation & Amortisation	900	1,230
Minimum lease payments under operating leases in respect of land and buildings	1,564	1,562

4. INCOME TAX EXPENSE

	Three months ended	
	30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
PRC corporate income tax	3,644	1,350
Deferred tax	–	182
	3,644	1,532

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 30 June 2011 (2010: 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 three months ended 30 June 2011.

5. RESULTS OF DISCONTINUED OPERATIONS

- (a) On 13 September 2010, the Group disposed of a wholly owned subsidiary, IIN Network Technology Group, to an independent third party at a consideration of HK\$30,000,000.

The profit/(loss) from the discontinued operation for the period is analysed as follows:

	Three months ended
	30 June 2010
	<i>HK\$'000</i>
	(Unaudited)
Revenue	10,143
Cost of sales	(8,310)
Selling expenses	–
Administrative expenses	(3,419)
Finance costs	–
Other revenue	285
	<hr/>
	(1,301)
Income tax expense	–
	<hr/>
Profit/(loss) for the period	(1,301)

- (b) On 4 August 2010, the Group disposed of a 100% owned subsidiary, Hunan IIN International Co. Limited ("Hunan IIN") to an independent third party at a minimal consideration. Hunan IIN had no significant contribution to the turnover and results of the Group for the three months ended 30 June 2010.

6. EARNINGS PER SHARE

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

	Three months ended 30 June	
	2011	2010
	HK\$ '000	HK\$ '000
	(Unaudited)	(Unaudited) (Restated)
From Continuing and discontinued operations:		
Profit attributable to equity holders of the Company		
for computation of basic and diluted earnings per share	3,092	3,838

	Three months ended 30 June	
Number of shares	2011	2010
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares		
for computation of basic earnings per share	2,065,307,117	1,713,624,784
Dilutive potential ordinary shares:		
– Share options	–	50,475,881
Weighted average number of ordinary shares		
for computation of diluted earnings per share	2,065,307,117	1,764,100,665

6. EARNINGS PER SHARE (CONTINUED)

	Three months ended	
	30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
From continuing operations		
Profit attributable to equity holders of the Company	3,092	3,838
Add: Loss for the period from discontinued operation	–	1,301
Earnings for the purpose of basic and diluted earnings per share from continuing operations	3,092	5,139

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

	Three months ended	
	30 June	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
From discontinued operations		
Loss for the period	–	(1,301)

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

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

For the three months ended 30 June 2011 and 2010

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	Contributed surplus HK\$'000	Convertible notes reserve HK\$'000	Assets revaluation reserve HK\$'000	Capital reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2010 (audited)	529,387	517,867	1,139	-	87,910	-	-	26,240	6,713	(412,766)	756,490	45,237	801,727
Profit for the period	-	-	-	-	-	-	-	-	-	3,838	3,838	21	3,859
Other comprehensive income/(expense) for the period	-	-	-	-	-	-	-	-	(972)	-	(972)	291	(681)
Total comprehensive income/(expense) for the period	-	-	-	-	-	-	-	-	(972)	3,838	2,866	312	3,178
Issue of shares upon exercise of share options	10,348	6,805	-	-	-	-	-	(6,195)	-	-	10,958	-	10,958
At 30 June 2010 (unaudited)	539,735	524,672	1,139	-	87,910	-	-	20,045	5,741	(408,928)	770,314	45,549	815,863

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

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Contributed surplus	Convertible notes reserve	Assets revaluation reserve	Capital reserve	Share-based payment reserve	Exchange translation reserve	Accumulated losses	Total	Non-controlling 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	HK\$'000
At 1 April 2011													
(audited)	644,368	624,541	2,094	-	-	(1,694)	32,235	39,480	20,658	(355,315)	1,006,367	23,188	1,029,555
Profit for the period	-	-	-	-	-	-	-	-	-	3,092	3,092	567	3,659
Other comprehensive income for the period	-	-	-	-	-	-	-	-	303	-	303	141	444
Total comprehensive income for the period	-	-	-	-	-	-	-	-	303	3,092	3,395	708	4,103
Recognition of share-based payment	-	-	-	-	-	-	-	3,200	-	-	3,200	-	3,200
Reduction of issued share capital	(483,274)	-	-	483,274	-	-	-	-	-	-	-	-	-
Utilisation of the contributed surplus account to offset balance of accumulated losses	-	-	-	(328,895)	-	-	-	-	-	328,895	-	-	-
At 30 June 2011													
(unaudited)	161,094	624,541	2,094	154,379	-	(1,694)	32,235	42,680	20,961	(23,328)	1,012,962	23,896	1,036,858

Note: The contributed surplus arose as a result of the capital reduction of approximately HK\$483,274,000 took effect on 23 June 2011. An amount of HK\$328,895,000 was applied towards writing off the Company's accumulated losses as at 31 March 2011.

8. DIVIDEND

The Board does not recommend payment of a dividend for the Review Period (2010: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30 June 2011, 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 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		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares			
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)	1.65%	30,750,000 (L)		-
	Interest of spouse	10,074,000 (L)	0.49%	-	74,824,000	3.62%
Mr. Wu Shu Min (Note 2)	Beneficial owner	36,505,750 (L)	1.77%	28,600,000 (L)	65,105,750	3.15%
Mr. Xu Shengheng (Note 3)	Beneficial owner	608,319,000 (L)	29.45%	25,350,000 (L)		
	Beneficial owner	608,300,000 (S)	29.45%			
	Interest of spouse	702,000 (L)	0.03%	-	634,371,000	30.72%
Ms. Chan Man Kuen Laura	Beneficial owner	1,250,000 (L)	0.06%	1,500,000 (L)	2,750,000	0.13%

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



Notes:

1. Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 shares and 30,750,000 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. Wu Shu Min is interested in 36,505,750 Shares and 28,600,000 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.
3. Mr. Xu Shengheng (“Mr. Xu”) is interested in 608,319,000 Shares and 25,350,000 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 SFO, Mr. Xu is deemed to be interested in the 702,000 Shares in which Ms. Luk is interested.
4. Ms. Chan Man Kuen Laura holds 1,250,000 Shares and 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(b) Long Position under Equity Derivatives

(i) *The Previous Scheme*

On 22 November 2001, the Company conditionally adopted a share option scheme (the "Previous Scheme") for a period of ten years from the date on which the Previous Scheme was adopted. The Previous Scheme became unconditional on 30 November 2001. The Previous Scheme was terminated on 7 August 2010 but the provisions of the Previous Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or as may be required in accordance with the provisions of the Previous Scheme. As at 30 June 2011, the following directors of the Company were interested in the following options under the Previous Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2011
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.8600	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.3120	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

(ii) *The New Plan*

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "New Plan") for a period of ten years from the date on which the New Plan became unconditional. On 7 August 2010, the New Plan became unconditional and effective. Pursuant to the New 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 New Plan, to subscribe for shares in the Company under the terms of the New Plan. As at 30 June 2011, the following directors of the Company were interested in the following options under the New Plan:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at 30 June 2011
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Wu Shu Min	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Soo Kim Fui Jeffrey	9 September 2010	9 September 2010 to 8 September 2020	0.426	6,000,000
Mr. Fu Hui Zhong	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
Ms. Chan Man Kuen Laura	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Chow Wan Hoi Paul	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at 30 June 2011, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 30 June 2011, shareholders (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 provision 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					
Luk Hoi Man (Note 1)	Beneficial owner	702,000 (L)		0.03%	-	634,371,000	30.72%
	Interest of spouse	608,319,000 (L)		29.45%	25,350,000 (L)		
	Interest of spouse	608,300,000 (S)		29.45%			
Financial International Holdings Ltd. (Note 2)	Beneficial owner	131,429,000 (L)		6.36%	-	131,429,000	6.36%
Grand Concord Group Ltd. (Note 2)	Beneficial owner/Interest of controlled corporation	131,429,000 (L)		6.36%	-	131,429,000	6.36%

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

Notes:

- Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu is interested in 608,319,000 Shares and 25,350,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 608,319,000 Shares and 25,350,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.
- Financial International Holdings Limited is wholly-owned by Grand Concord Group Ltd. Therefore, under SFO, Grand Concord Group Ltd. is deemed to be interested in 131,429,000 Shares.

Save as disclosed above, as at 30 June 2011, 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 June 2011, options to subscribe for an aggregate of 262,817,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2011 were as follows:

Date of grant of share options	As at 1 April 2011	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2011	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
1 March 2002	75,000	-	-	-	75,000	-	1 March 2002 to 21 December 2011	1.9000
7 March 2002	2,500,000	-	-	-	2,500,000	-	7 March 2002 to 21 December 2011	1.8600
5 June 2003	750,000	-	-	-	750,000	-	5 June 2003 to 21 December 2011	0.3120
29 May 2007	2,750,000	-	-	-	2,750,000	-	29 May 2007 to 21 December 2011	0.8560
23 June 2009	83,750,000	-	-	-	83,750,000	-	23 June 2009 to 21 December 2011	0.3304
9 September 2010	77,992,000	-	-	-	77,992,000	-	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 2010 to 8 September 2020	0.4260
9 September 2010	31,666,667	-	-	-	31,666,667	9 September 2010 to 8 September 2012	9 September 2010 to 8 September 2020	0.4260
9 September 2010	31,666,666	-	-	-	31,666,666	9 September 2010 to 8 September 2013	9 September 2010 to 8 September 2020	0.4260
	262,817,000	-	-	-	262,817,000			

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.



CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions of the Code on Corporate Governance Practice set out in Appendix 15 of the GEM Listing Rules throughout the Review Period.

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. Paul Chow Wan Hoi and Mr. Yau Kiam Fee. 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, Mr. Jia Wenzeng, Mr. Paul Chow Wan Hoi and Mr. Yau Kiam Fee as independent non-executive Directors.

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

Hong Kong, 10 August 2011