

# CGS

**CHINA GROUND SOURCE ENERGY LIMITED**

(Formerly known as IIN International Limited)

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

Stock Code: 8128



**2007/08**  
**Third Quarterly Report**

CGS

Characteristics of the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

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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\$145.1 million for the Review Period.

Profit attributable to equity holder of the Company for the Review Period amounted to approximately HK\$45.4 million.

No dividend was declared for the Review Period.

## FINANCIAL REVIEW

During the nine months ended 30 June 2008 (the “Review Period”), China Ground Source Energy Limited (the “Company”) together with its subsidiaries (the “Group”) completed two business acquisitions, namely the environmental protection and the shallow ground energy utilization on 7 November 2007 and 31 March 2008 respectively. In addition, the results and assets of these two businesses have been consolidated in the Company’s financial statements since the completion date of acquisition.

During the Review Period, the Group’s turnover substantially increased by 95.6% to approximately HK\$145.1 million, compared to approximately HK\$74.2 million for the corresponding period last year, mainly attributable to the consolidation of results of the newly acquired businesses by the Group.

During the Review Period, the Group’s turnover was contributed by the transmission segment, the environmental protection segment and shallow ground energy utilization segment, of which the transmission segment accounts for approximately HK\$73.7 million (corresponding period last year: approximately HK\$74.2 million); the environmental protection segment accounts for approximately HK\$23.0 million (corresponding period last year: Nil); and the shallow ground energy utilization segment accounts for approximately HK\$48.4 million (corresponding period last year: Nil). With the consolidation of the environmental protection operations and the shallow ground energy utilization operations with a higher profit margin, the Group’s gross profit margin during the Review Period increased significantly to approximately 21.8%, compared to approximately 13.3% for the corresponding period last year.

During the Review Period, the Group’s consolidated results attributable to shareholders recorded a turnaround from a loss of approximately HK\$5.4 million for the corresponding period last year to a profit of approximately HK\$45.4 million, representing a considerable improvement over the previous years.

During the Review Period, the selling and distribution costs of the Group were approximately HK\$7.4 million, compared to approximately HK\$3.9 million for the corresponding period last year, mainly due to the consolidation of selling and distribution costs of shallow ground energy utilization segment and the environmental protection segment.

During the Review Period, the Group's administrative expenses increased significantly to approximately HK\$23.7 million, compared to approximately HK\$9.3 million for the corresponding period last year, mainly due to the consolidation of shallow ground energy utilization segment and the environmental protection segment.

## BUSINESS REVIEW AND PROSPECTS

Following the acquisition of the two new businesses, namely shallow ground energy utilization and environmental protection, the Group has entered a new milestone. In line with the state environmental protection development policies of China, the management expects that the Group will maintain good growth momentum.

### SHALLOW GROUND ENERGY UTILIZATION

Shallow ground energy utilization is the principal business of Beijing Enterprises Ever Source Limited, together with its subsidiaries ("Ever Source"), which mainly includes the provision of heating and cooling for buildings and heating of domestic water with the usage of shallow ground energy. Such acquisition was completed on 31 March 2008. For the three months ended 30 June 2008, the business development of Ever Source was satisfactory. It is mainly attributable to Ever Source, being a ground source energy collection system designer and developer, has integrated the investment, construction and energy saving operations, making ground source energy as the alternative energy for heating which further enhance Ever Source's profitability. In addition, Ever Source also benefits from the PRC Renewable Energy Law and the implementation of the 11th Five-Year Plan and enactment of a series of energy saving and emissions reduction support policies.

As the pace of urbanization and new rural construction in China accelerates, the fast growing consumption of traditional energy for heating has increasing impact on the environment. The Company believes that the demand for ground source energy utilization system, which operates at costs equivalent to the initial costs of traditional energy and as the alternative energy for heating, will enter its fast-growing phase.

In capturing the fast growth of market demand for exclusive technology, it is expected that the enhanced technology service operating income will become another profit growth point of Ever Source.

## ENVIRONMENTAL PROTECTION

Another line of business is the environmental protection business which the Group mainly operates through Shenzhen Lisai Industrial Development Co., Ltd. (“Shenzhen Lisai”). Currently, Shenzhen Lisai’s revenue is mainly derived from the registered clean development mechanism (“CDM”) project and Guanlan River sewage treatment project. Shenzhen Lisai is determined to develop CDM project so as to increase the revenue for the Group. To achieve this, it is stepping up its investment efforts by adopting measures such as opening up more gas wells so as to expand the CDM project revenue through increasing carbon dioxide emission reduction.

Moreover, the construction of ash treatment project facilities of Shenzhen Lisai is in the installation and testing phase. It is expected trial production and operation of the facilities will commence in the next quarter. Such ash treatment facilities are principally designed for the treatment of dangerous ashes generated by incinerators. Shenzhen Lisai has entered into a letter of intent in respect of ash treatment with a waste incinerator owned by the Shenzhen city government where official operation is expected to commence following the completion of trial production and operation. Accordingly, such project will become a new revenue source for the Group.

## TRANSMISSION

The Group’s transmission business is operated by Wujiang Shengxin Optoelectronics Technology Co., Ltd. During the period under review, the Group recorded a slight decrease in revenue which is mainly attributable to the rising material price and falling market demand. As the Olympic Games has begun, it is expected that market investment will further slowdown and production for the next quarter may also decrease.

## 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 2008 together with the unaudited comparative figures for the corresponding periods in 2007 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 June		Nine months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Revenue	2	78,238	23,816	145,071	74,182
Cost of sales		(58,780)	(20,804)	(113,458)	(64,320)
Gross profit		19,458	3,012	31,613	9,862
Other revenue		57,527	637	61,655	2,400
Selling and distribution costs		(4,830)	(965)	(7,369)	(3,946)
Administrative expenses		(14,124)	(3,858)	(23,702)	(9,280)
Other operating expenses		(81)	–	(685)	(345)
Profit/(loss) from operating activities		57,950	(1,174)	61,512	(1,309)
Finance costs		(3,142)	(1,036)	(4,600)	(2,437)
Profit/(loss) before tax	3	54,808	(2,210)	56,912	(3,746)
Income tax expense	4	(1,200)	(500)	(1,675)	(585)
Profit/(loss) for the period		53,608	(2,710)	55,237	(4,331)
Attributable to:					
Equity holders of the Company		44,056	(2,968)	45,376	(5,405)
Minority interests		9,552	258	9,861	1,074
Profit/(loss) for the period		53,608	(2,710)	55,237	(4,331)
Dividend	5	–	–	–	–
Earnings/(loss) per share attributable to the equity holders of the Company	6				
– Basic (HK cents)		0.78	(0.17)	1.04	(0.32)
– Diluted (HK cents)		0.65	(0.17)	0.83	(0.32)

## 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 2007.

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	
	2008 HK\$’000 (Unaudited)	2007 HK\$’000 (Unaudited)	2008 HK\$’000 (Unaudited)	2007 HK\$’000 (Unaudited)
Transmission	20,481	23,816	73,730	74,182
Shallow ground energy utilization	48,346	–	48,346	–
Environmental protection	9,411	–	22,995	–
	<b>78,238</b>	<b>23,816</b>	<b>145,071</b>	<b>74,182</b>

### 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	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Cost of sales	58,780	20,804	113,458	64,320
Staff costs (including directors' emoluments)	7,308	1,078	11,044	3,562
Depreciation	4,514	491	6,205	1,619
Minimum lease payments under operating leases in respect of land and buildings	1,246	19	1,900	58

### 4. INCOME TAX EXPENSE

	Three months ended 30 June		Nine months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
PRC corporate income tax	1,200	500	1,675	585

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 2008 (2007: 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 2008 (2007: Nil).

Deferred tax liabilities of approximately HK\$21,437,000 represent the deferred tax liabilities incurred from equity component of the convertible notes amounting to HK\$122,495,000 calculated at Hong Kong profits tax rate of 17.5%. Details of the convertible notes are set out in the Company's circulars dated 3 October 2007 and 29 February 2008.

### 5. DIVIDEND

The Board does not recommend payment of a dividend for the Review Period (2007: Nil).



## 6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The basic and diluted earnings/(loss) per share for the three months and nine months ended 30 June 2008 and 2007 are calculated as follow:

	Three months ended 30 June		Nine months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Profit/(loss) attributable to equity holders of the Company	44,056	(2,968)	45,376	(5,405)
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	Three months ended 30 June		Nine months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Number of shares				
Weighted average number of ordinary shares for computation of basic earnings/(loss) per share	5,653,112,470	1,744,107,137	4,369,902,218	1,666,809,359
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Dilutive potential ordinary shares:				
– Share options	19,000,000	19,000,000	19,000,000	19,000,000
– Convertible notes	1,080,000,000	–	1,080,000,000	–
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Weighted average number of ordinary shares for computation of diluted earnings/(loss) per share	6,752,112,470	1,763,107,137	5,468,902,218	1,685,809,359

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

For the nine months ended 30 June 2008

	Attributable to equity holders of the Company												
	Convertible			Available-			Share-		Accumu-			Minority	
	Share	note	Statutory	financial	Asset	based	Exchange	Special	lated	Total	interests	Total	
	capital	equity	reserve	assets	revaluation	payment	fluctuation	reserve	losses	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	HK\$'000	HK\$'000	HK\$'000	
At 1 October 2006	126,989	54,964	-	4	-	-	-	(17)	-	(203,865)	(21,925)	10,195	(11,730)
Issuance of New Shares	25,322	5,068	-	-	-	-	-	-	-	30,590	-	30,590	-
Currency translation	-	-	-	-	-	-	-	(52)	-	-	(52)	-	(52)
Net loss for the period	-	-	-	-	-	-	-	-	-	(5,405)	(5,405)	1,074	(4,331)
At 30 June 2007	152,311	60,032	-	4	-	-	-	(69)	-	(209,270)	3,208	11,269	14,477
At 1 October 2007	230,667	100,821	-	4	-	1,618	779	(1,064)	-	(202,037)	130,768	16,125	146,893
Issuance of new shares	210,268	565,809	-	-	-	-	-	-	(150,000)	-	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	666,630	101,058	4	-	17,711	779	9,193	(150,000)	(188,108)	898,202	107,683	1,005,885

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

As at 30 June 2008, 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	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of the interests	Interests in options	Aggregate interests	Approximate percentage of the aggregate interests
	Interests in shares	Capacity				
Mr. Wu Shu Min (Note 1)	146,023,000	Beneficial owner	2.58%	13,000,000	159,023,000	2.81%
Mr. Xu Zhi Feng (Note 2)	4,376,000	Beneficial owner	0.08%	1,000,000	5,376,000	0.10%

#### Notes:

1. Mr. Wu Shu Min is interested in 146,023,000 shares and 13,000,000 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.
2. Mr. Xu Zhi Feng is interested in 4,376,000 shares and 1,000,000 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 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 2008, the following directors of the Company were interested in the following options under the Scheme:

Name of director	Number of share options outstanding		Date of grant	Exercise period	Exercise price per share HK\$
	as at 1 October 2007	and 30 June 2008			
Mr. Wu Shu Min	10,000,000		7 March 2002	7 March 2002 to 21 December 2011	0.465
		3,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078
Mr. Xu Zhi Feng		1,000,000	5 June 2003	5 June 2003 to 21 December 2011	0.078

Save as disclosed above, as at 30 June 2008, 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 2008, 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
Lei Dong Ling (Note 1)	Interest of spouse	146,023,000	2.58%	13,000,000	159,023,000	2.81%
China Standard Limited (Note 2)	Beneficial owner	500,000,000	8.84%	400,000,000	900,000,000	15.92%
Financial International Holdings Ltd. (Note 3)	Beneficial owner	395,900,000	7.00%	-	395,900,000	7.00%
Cheung Kwan (Note 3)	Interest of controlled corporation	395,900,000	7.00%	-	395,900,000	7.00%
American International Group, Inc. (Note 4)	Investment manager	400,000,000	7.08%	-	400,000,000	7.08%
Value Partners Limited (Note 5)	Investment manager	400,000,000	7.08%	-	400,000,000	7.08%
Value Partners Group Limited (Note 5)	Interest of controlled corporation	400,000,000	7.08%	-	400,000,000	7.08%
Cheah Capital Management Ltd. (Note 5)	Interest of controlled corporation	400,000,000	7.08%	-	400,000,000	7.08%
Cheah Company Limited (Note 5)	Interest of controlled corporation	400,000,000	7.08%	-	400,000,000	7.08%
Hang Seng Bank Trustee International Ltd. (Note 5)	Trustee	400,000,000	7.08%	-	400,000,000	7.08%

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Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
Cheah Cheng Hye (Note 5)	Founder of a discretionary trust	400,000,000	7.08%	-	400,000,000	7.08%
To Hau Yin (Note 5)	Interest of spouse	400,000,000	7.08%	-	400,000,000	7.08%
Ever Sincere Investment Limited (Note 6)	Beneficial owner	1,000,000,000	17.69%	680,000,000	1,680,000,000	29.72%
Long Dynasty Holdings Ltd. (Note 7)	Interest of controlled corporation	1,000,000,000	17.69%	680,000,000	1,680,000,000	29.72%
Xu Shengheng (Note 7)	Interest of controlled corporation	1,000,000,000	17.69%	680,000,000	1,682,808,000	29.77%
	Interest of spouse	2,808,000	0.05%	-		
Luk Hoi Man (Note 7)	Beneficial owner	2,808,000	0.05%	-	1,682,808,000	29.77%
	Interest of spouse	1,000,000,000	17.69%	680,000,000		
Beijing Enterprises Group (BVI) Company Limited (Note 8)	Interest of controlled corporation	1,000,000,000	17.69%	-	1,000,000,000	17.69%
Beijing Enterprises Group Company Limited (Note 8)	Interest of controlled corporation	1,000,000,000	17.69%	-	1,000,000,000	17.69%
Beijing Enterprises Holdings Limited (Note 8)	Interest of controlled corporation	1,000,000,000	17.69%	-	1,000,000,000	17.69%
Beijing Enterprises Treasury Company Limited (Note 8)	Security interest	1,000,000,000	17.69%	-	1,000,000,000	17.69%

**Notes:**

- Ms. Lei Dong Ling is the spouse of Mr. Wu Shu Min. Under SFO, Ms. Lei Dong Ling is deemed to be interested in 146,023,000 shares and 13,000,000 shares underlying share options in which Mr. Wu Shu Min is interested.
- 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.

3. Financial International Holdings Limited is wholly-owned by Cheung Kwan. Therefore, under SFO, Cheung Kwan is deemed to be interested in 395,900,000 shares of the Company.
4. Shares placed to certain funds, sub funds or accounts that AIG Global Investment Corporation (Asia) Limited (“AIG”) is acting for as investment manager or investment advisor. AIG is wholly-owned by American International Assurance Company (Bermuda) Limited (“AIAC”), which in turn is wholly-owned by American International Reinsurance Company, Limited (“AIRC”), which in turn is wholly-owned by AIG Life Holding (International) LLC (“ALH”), which in turn is wholly-owned by American International Group, Inc. (“AIGI”). Under SFO, AIG, AIAC, AIRC, ALH and AIGI are deemed to be interested in the 400,000,000 shares of the Company.
5. Shares placed to certain funds, sub funds or accounts that Value Partners Limited (“VPL”) is acting for as investment manager or investment advisor. VPL is wholly-owned by Value Partners Group Limited (“VPGL”), which in turn is 35.65% owned by Cheah Capital Management Limited (“CCML”), which in turn is wholly-owned by Cheah Company Limited (“CCL”), which in turn is wholly-owned by Hang Seng Bank Trustee International Ltd. (“HSBTRIL”), as trustee of The C H Cheah Family Trust, a discretionary trust. Therefore, under SFO, VPL, VPGL, CCML, CCL and HSBTRIL are deemed to be interested in 400,000,000 shares of the Company. Mr. Cheah Cheng Hye (“Mr. Cheah”) is the founder of The C H Cheah Family Trust. Ms. To Hau Yin (“Ms. To”) is the spouse of Mr. Cheah. Therefore, under SFO, Mr. Cheah and Ms. To are also deemed to be interested in 400,000,000 shares of the Company.
6. These are the consideration shares and 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.
7. Ever Sincere Investment Ltd. (“Ever Sincere”) is 50% owned by Long Dynasty Holdings Ltd. (“Long Dynasty”), which in turn is 100% owned by Mr. Xu Shengheng (“Mr. Xu”). Ms. Luk Hoi Man (“Ms. Luk”) is the spouse of Mr. Xu. Therefore, under SFO, Long Dynasty, Mr. Xu and Ms. Luk are deemed to be interested in 1,000,000,000 shares and 680,000,000 underlying shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere. In addition, Ms. Luk held 2,808,000 shares of the Company. Therefore, under SFO, Mr. Xu is also deemed to be interested in 2,808,000 shares of the Company.
8. Beijing Enterprises Treasury Company Limited (“BETCL”) held 1,000,000,000 shares of the Company as security interests in shares. BETCL is wholly-owned by Beijing Enterprises Holdings Limited (“BEHL”), which in turn is 36.11% owned by Beijing Enterprises Group (BVI) Company Limited (“BEG BVI”), which in turn is wholly-owned by Beijing Enterprises Group Company Limited (“BEGCL”). Therefore, under SFO, BETCL, BEHL, BEG BVI and BEGCL are deemed to be interested in 1,000,000,000 shares of the Company.

Save as disclosed above, as at 30 June 2008, 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 2008, options to subscribe for an aggregate of 27,300,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 June 2008 were as follows:

Date of grant of share options	As at 1 October 2007	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 30 June 2008	Exercise period of share options	Exercise price per share HK\$
1 March 2002	800,000	-	-	-	-	800,000	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	-	-	-	-	4,000,000	5 June 2003 to 21 December 2011	0.078
29 May 2007	12,500,000	-	-	-	-	12,500,000	29 May 2007 to 21 December 2011	0.214
	<u>27,300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,300,000</u>		

## COMPETITION AND CONFLICT OF INTERESTS

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

## AUDIT COMMITTEE

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Liu Yang, Mr. Zhanglai and Ms. Cai Xin. Ms. Cai Xin is the chairman of the audit committee. The audit committee has reviewed the Group's unaudited results for the Review Period and has provided advice and comment thereon.



## SECURITIES TRANSACTIONS BY DIRECTORS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

*As at the date of this report, the Board comprises Mr. Wu Shu Min and Mr. Xu Zhi Feng as executive Directors, Mr. Liu Yang, Mr. Zhanglai and Ms. Cai Xin as independent non-executive Directors.*

By Order of the Board of  
China Ground Source Energy Limited  
Wu Shu Min  
Chairman

Hong Kong, 13 August 2008