



CHINA GROUND SOURCE ENERGY LIMITED
中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 DECEMBER 2008

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcement” page on the GEM website for at least 7 days from the date of publication and on the website of China Ground Source Energy Limited at www.iini.com.

HIGHLIGHTS

Revenue recorded approximately HK\$126.3 million for the Review Period.

Loss attributable to equity holder of the Company for the Review Period amounted to approximately HK\$2.9 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The Group completed two major acquisitions in environmental protection and shallow ground energy utilisation on 7 November 2007 and 31 March 2008 respectively, thus changing the Group's principal business from the provision of telecommunication transmission products to engage in emerging industries such as the new energy source products and technology and environmental protection. Such two businesses are currently the state's key development businesses which is growing rapidly under various support and preferential policies of the PRC government. Following the integration with the new businesses, the Group is also confident to gain bigger market share in related business markets. As the results of the newly acquired businesses will be included in the financial statements during the period under review, the financial performance of the Group showed significant changes as compared with that in the same period last year.

During the period under review, the turnover of the Group grew significantly by approximately 242% to HK\$126.3 million (the same period last year: approximately HK\$36.9 million) which was mainly attributable to the integration of shallow ground energy utilisation business. The shallow ground energy utilisation segment, environmental protection segment and transmission segment accounted for 74.5%, 6.2% and 19.3% of the Group's turnover respectively (the same period last year: Nil, 13.0% and 87.0% respectively).

During the period under review, as the gross profit margin of the newly acquired shallow ground energy utilisation and environmental protection businesses was higher than that of the transmission business, the gross profit margin of the Group increased from approximately 16% for the same period last year to approximately 19% during the period under review.

During the period under review, the selling and distribution costs of the Group grew substantially from approximately HK\$1.4 million over the same period last year to approximately HK\$3.6 million, mainly attributable to the significant increase in the business volume.

During the period under review, the administrative expenses of the Group rose sharply from approximately HK\$4.5 million over the same period last year to approximately HK\$17.1 million. The increase in the administrative expenses was attributable to the consolidation of the administrative expenses from the newly acquired businesses.

During the period under review, the consolidated results attributable to the shareholders of the Group experienced a turnaround from a profit of approximately HK\$1.0 million to a loss of approximately HK\$2.9 million taking into account of the finance costs of approximately HK\$5.3 million arising from the issue of convertible notes as a result of the acquisition of two businesses by the Group. Excluding the finance costs of the convertible notes, the consolidated results attributable to the shareholders of the Group during the period under review represented a profit of approximately HK\$2.4 million.

BUSINESS REVIEW AND PROSPECTS

Shallow Ground Energy Utilisation

Shallow ground energy utilisation is the principal business of Beijing Enterprises Ever Source Limited (“BEES”). By employing its patented core technology – “single well circulation” central liquid cooling/heating source environmental system (單井抽灌式中央液態冷熱源環境系統), BEES provides heating and cooling for buildings and heating of domestic water with shallow ground energy, as alternative energy, collected by the system.

Given shallow ground energy as a renewable energy, BEES has secured tremendous support and approval from the Chinese government and succeeded in utilising ground energy in different buildings as a stable supply of heating. Upon completion of the acquisition, BEES witnessed satisfactory business development largely because the Company, being a ground source energy collection and utilisation system designer co-operated with the ground source energy collection and utilisation system developer, has been able to integrate the investment, construction and energy conservation operations of ground source energy as an alternative energy for heating and cooling which further enhances its profitability. In addition, BEES also benefits from the implementation of the PRC Renewable Energy Law and the 11th Five-Year Plan as well as the introduction of a series of development policies in support of energy conservation and emissions reduction.

As the pace of urbanisation and new rural construction projects in China accelerates, the increased consumption of conventional energy for heating in buildings has a growing impact on the environment. BEES’s utilisation of shallow ground energy as an alternative energy for heating and cooling can minimise the reliance upon the consumption of coal for conventional power generation which, in turn, will achieve energy conservation and environmental protection. As such, shallow ground energy, a green, environmental friendly energy product, will hold enormous market potential. BEES believes that the demand for the ground source energy utilisation system, which operates at costs equivalent to the initial operating costs of conventional energy to provide ground source energy as an alternative energy for heating, will enter a period of fast growth.

Seeing the increased market demand for proprietary technology, BEES will aim to enhance its technology and expand the area of technology applications. BEES expects that the operating income from the enhanced technology services will become another profit growth point.

Environmental Protection

The environmental protection business maintained steady growth. Through much efforts, the Company acquired the landfill gas collection right of Xiaping landfill site where the Company can develop and maintain its own landfill gas system. This helps ensure, stable and fast growth of landfill gas production and represents a favorable growth opportunity for its clean development mechanism (“CDM”) project and landfill gas integrated utilisation. The Company believes that the revenue from its CDM project will grow rapidly.

On the other hand, given the shrinking business operation of processing enterprises in the Zhujiang Delta region as a result of the financial crisis, part of the Company’s sewage treatment business was adversely affected. The Company endeavors to overcome these unfavorable consequences to ensure stable growth of its sewage treatment business.

Transmission

Due to falling product prices caused by unfavorable factors such as stagnant demand and sharp fall in bronze prices (as its principal raw material), the turnover of the transmission business dropped substantially. Segment results also recorded loss. As the development focus of the Company has shifted to environmental protection and shallow ground energy utilisation, the Company is considering divesting 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 ended 31 December 2008 together with the unaudited comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Three months ended 31 December	
	<i>Notes</i>	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Revenue	2	126,261	36,904
Cost of sales		(101,831)	(31,029)
Gross profit		24,430	5,875
Other revenue		2,698	2,790
Selling and distribution costs		(3,607)	(1,374)
Administrative expenses		(17,130)	(4,540)
Other operating expenses		(524)	(582)
Profit/(loss) from operating activities		5,867	2,169
Share of results of associates and a jointly controlled entity		(2)	–
Finance costs		(8,245)	(772)
Profit/(loss) before tax	3	(2,380)	1,397
Income tax expense	4	(86)	(160)
Profit/(loss) for the period		<u>(2,466)</u>	<u>1,237</u>
Attributable to:			
Equity holders of the Company		(2,939)	986
Minority interests		473	251
Profit/(loss) for the period		<u>(2,466)</u>	<u>1,237</u>
Dividend	5	<u>–</u>	<u>–</u>
Earnings/(loss) per share attributable to the equity holders of the Company			
– Basic (HK cents)	6	<u>(0.05)</u>	<u>0.03</u>
– Diluted (HK cents)		<u>(0.04)</u>	<u>0.03</u>

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 31 December	
	2008	2007
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Transmission	24,420	32,099
Shallow ground energy utilization	93,996	–
Environmental protection	7,845	4,805
	<u>126,261</u>	<u>36,904</u>

3. PROFIT/(LOSS) BEFORE TAX

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

	Three months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff costs (including directors' emoluments)	7,887	1,936
Depreciation	1,310	709
Minimum lease payments under operating leases in respect of land and buildings	<u>1,864</u>	<u>2,998</u>

4. INCOME TAX EXPENSE

	Three months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC corporate income tax	1,135	160
Deferred tax	<u>(1,048)</u>	<u>—</u>
	<u>87</u>	<u>160</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the three months ended 31 December 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 three months ended 31 December 2008 (2007: Nil).

Deferred tax represents the imputed interest incurred from the convertible notes amounting to approximately HK\$6.4 million 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. 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 ended 31 December 2008 and 2007 are calculated as follow:

	Three months ended 31 December	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Profit/(loss) attributable to equity holders of the Company	<u>(2,939)</u>	<u>986</u>
	Three months ended 31 December	
	2008 (Unaudited)	2007 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for computation of basic earnings/(loss) per share	<u>5,653,112,000</u>	<u>3,603,482,000</u>
Dilutive potential ordinary shares:		
– Share options	19,000,000	19,000,000
– Convertible notes	<u>1,080,000,000</u>	<u>400,000,000</u>
Weighted average number of ordinary shares for computation of diluted earnings/(loss) per share	<u>6,752,112,000</u>	<u>4,022,481,714</u>

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

For the three months ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital	Convertible			Statutory reserve	Asset revaluation reserve	Share-		Accumulated losses	Total	Minority interests	Total
		Share premium account	note equity reserve				based payment reserve	Exchange fluctuation reserve				
		HK\$'000	HK\$'000	HK\$'000			HK\$'000	HK\$'000				
As 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	69,478	155,949	-	-	-	-	-	-	225,427	-	225,427	
Issuance of convertible notes	-	-	52,601	-	-	-	-	-	52,601	-	52,601	
Net profit/(loss) for the period	-	-	-	-	-	-	-	986	986	251	1,237	
As at 31 December 2007	<u>300,145</u>	<u>256,770</u>	<u>52,601</u>	<u>4</u>	<u>1,618</u>	<u>779</u>	<u>(1,084)</u>	<u>(201,051)</u>	<u>409,782</u>	<u>16,376</u>	<u>426,158</u>	
At 1 October 2008	440,935	516,630	123,680	4	1,321	779	8,063	(192,867)	898,545	55,343	953,888	
Provision of statutory reserve during the period	-	-	-	265	-	-	-	(265)	-	-	-	
Currency translation	-	-	-	-	-	-	(2,456)	-	(2,456)	-	(2,456)	
Net profit/(loss) for the period	-	-	-	-	-	-	-	(2,939)	(2,939)	473	(2,466)	
At 31 December 2008	<u>440,935</u>	<u>516,630</u>	<u>123,680</u>	<u>269</u>	<u>1,321</u>	<u>779</u>	<u>5,607</u>	<u>(196,071)</u>	<u>893,150</u>	<u>55,816</u>	<u>948,966</u>	

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

As at 31 December 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:

- 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.
- 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. Mr. Xu Zhi Feng has ceased to act as executive Director of the Company from 6 February 2009.

(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 31 December 2008, the following directors of the Company were interested in the following options under the Scheme:

Name of director	Number of share options outstanding as at 1 October 2008 and 31 December 2008	Date of grant	Exercise period	Exercise price per share HK\$
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 31 December 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 31 December 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 (<i>Note 1</i>)	Interest of spouse	146,023,000	2.58%	13,000,000	159,023,000	2.81%
China Standard Limited (<i>Note 2</i>)	Beneficial owner	500,000,000	8.84%	400,000,000	900,000,000	15.92%
Financial International Holdings Ltd. (<i>Note 3</i>)	Beneficial owner	452,652,000	8.01%	–	452,652,000	8.01%
Cheung Kwan (<i>Note 3</i>)	Interest of controlled corporation	452,652,000	8.01%	–	452,652,000	8.01%
American International Group, Inc. (<i>Note 4</i>)	Investment manager	400,000,000	7.08%	–	400,000,000	7.08%
Value Partners Limited (<i>Note 5</i>)	Investment manager	395,624,000	6.99%	–	395,624,000	6.99%
Value Partners Group Limited (<i>Note 5</i>)	Interest of controlled corporation	395,624,000	6.99%	–	395,624,000	6.99%
Cheah Capital Management Ltd. (<i>Note 5</i>)	Interest of controlled corporation	395,624,000	6.99%	–	395,624,000	6.99%
Cheah Company Limited (<i>Note 5</i>)	Interest of controlled corporation	395,624,000	6.99%	–	395,624,000	6.99%
Hang Seng Bank Trustee International Ltd. (<i>Note 5</i>)	Trustee	395,624,000	6.99%	–	395,624,000	6.99%
Cheah Cheng Hye (<i>Note 5</i>)	Founder of a discretionary trust	395,624,000	6.99%	–	395,624,000	6.99%
To Hau Yin (<i>Note 5</i>)	Interest of spouse	395,624,000	6.99%	–	395,624,000	6.99%

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
Ever Sincere Investment Limited (Note 6)	Beneficial owner	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	1,695,464,000	29.99%
	Beneficial owner	12,656,000	0.22%			
	Interest of spouse	2,808,000	0.05%	–		
Luk Hoi Man (Note 7)	Beneficial owner	2,808,000	0.05%	–	1,695,464,000	29.99%
	Interest of spouse	1,012,656,000	17.91%	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.
- Financial International Holdings Limited is wholly-owned by Ms. Cheung Kwan. Therefore, under SFO, Ms. Cheung Kwan is deemed to be interested in 452,652,000 shares of the Company.
- 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 395,624,000 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 395,624,000 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. Mr. Xu Shengheng (“Mr. Xu”) held 12,656,000 shares 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. Therefore, under SFO, 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 and 12,656,000 shares held by Mr. Xu. 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 31 December 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 31 December 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 31 December 2008 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 31 December 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, Ms. Laura Chan Man Kuen, Ms. Cai Xin and Mr. Calvin Chiu Chun Kit. Ms. Laura Chan Man Kuen 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 notice, the Board comprises Mr. Wu Shu Min, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Ms. Cheung Kwan, Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Lu Chuan as non-executive Director, Ms. Laura Chan Man Kuen, Ms. Cai Xin and Mr. Calvin Chiu Chun Kit as independent non-executive Directors.

Ms. Cheung Kwan, being an executive Director, Mr. Lu Chuan, being the non-executive Director and Ms. Cai Xin, being an independent non-executive Director, are unclear as to the list of members of the board of Directors of the Company as at the date of announcement. These three Directors do not accept responsibility for the accuracy and content of the list of members of the Board of Directors of the Company as at the date of announcement, stated in this announcement.

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

Hong Kong, 13 February 2009