

CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128



**2011
INTERIM REPORT**





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

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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 (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\$135 million.

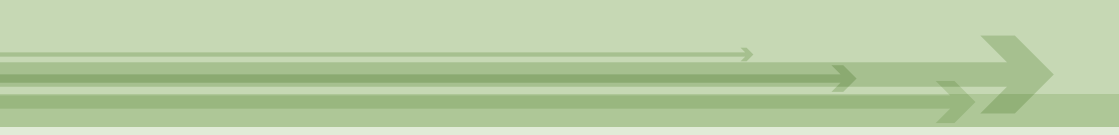
Net profit after tax of the Group for the Review Period amounted to approximately HK\$26 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of the financial results of China Ground Source Energy Limited (the "Company") and its subsidiaries (collectively the "Group"). For more detailed information, please refer to the unaudited consolidated financial statements for the six months period ended 30 September 2011 (the "Review Period") and 30 September 2010.

	Three months ended 30 September		Six months ended 30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operation:				
<i>Revenue</i>				
– Shallow ground energy utilisation system	78,024	128,291	135,297	178,703
Discontinued operation:				
<i>Revenue</i>				
– Sewage and gas treatment income	–	3,873	–	14,016
Profit for the period	22,549	37,914	26,208	41,769
Profit attributable to owners of the Company	21,297	36,911	24,389	40,745



During the Review Period, the Group's revenue amounted to approximately HK\$135 million which was contributed by shallow ground energy utilisation segment as compared with that of approximately HK\$179 million for the corresponding period last year. Although the revenue reduced by approximately HK\$44 million as compared with that of last corresponding period, the Group's gross profit margin for the Review Period increased from 41% to 45%.

Selling and distribution costs were maintained at similar level as compared with last corresponding period.

Administrative expenses amounted to approximately HK\$31 million and HK\$27 million for the six months ended 30 September 2011 and 2010 respectively. The increase was mainly due to the increased in the staff cost, the Directors believe that our success depends upon our ability to employ and retain management and technical personnel with the ability to design, utilise, and enhance our services and products.

No finance costs was recorded for the six months ended 30 September 2011 as compared with HK\$7.5 million for the last corresponding period due to conversion of convertible notes to ordinary share capital on 14 September 2010.

Other income decreased from approximately HK\$14 million to approximately HK\$6 million due to the absence of a one-off gain on the disposal of the wholly owned subsidiary, Hunan IIN International Co., Limited that recorded in the corresponding period last year.

Profit attributable to owners of the Company decreased to HK\$24 million for the Review Period and such decrease was mainly attributable to the absence of a one-off gain on the disposal of IIN Network Technology Limited and its subsidiaries that recorded in the corresponding period last year and the decrease in revenue.

ORDER BOOK

As at the date of this report, the Group has contracts on hand of approximately HK\$287 million.

INVESTMENT PROPERTY

During the Review Period, the Group had transferred the prepaid lease payment to investment property under construction, this investment property was valued at approximately HK\$97 million as at 30 September 2011. This investment property will be developed as the Group's first self-built demonstration leasing project (Wanghaixingcheng) with the application of ground source energy.



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets of the Group as at 30 September 2011 was approximately HK\$346 million (31 March 2011: approximately HK\$347 million). As at 30 September 2011, the Group had cash and bank balances of approximately HK\$114 million (31 March 2011: approximately HK\$148 million). Cash shown on the statement of financial position included funds available for general corporate purposes.

Non-controlling interests amounted to approximately HK\$31 million which mainly represents the interests attributable to minority shareholders of the Group's subsidiaries in the PRC.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 23 March 2011 and the subsequent Order of the Grand Court of the Cayman Islands granted on 17 June 2011, the Company effected a capital reduction (the "Capital Reduction") which took effect on 23 June 2011. The paid-up capital on each of its issued ordinary share of US\$0.04 was cancelled to the extent of US\$0.03 per share, and the nominal value of each of the issued ordinary shares of the Company was reduced from US\$0.04 per share to US\$0.01 per share.

A total credit of approximately HK\$483 million arose as a result of the Capital Reduction of which an amount of approximately HK\$329 million was applied towards writing off the accumulated losses of the Company as at 31 March 2011.

CHARGES ON GROUP'S ASSET

As at 30 September 2011, no Group's asset has been charged.

GEARING RATIO

Following the conversion of the convertible notes on 14 September 2010, the gearing ratio of the Group was maintained at 0% as at both 30 September 2011 and 31 March 2011.

FOREIGN EXCHANGE EXPOSURE

The Group continues to adopt a conservative treasury policy with all bank deposits being kept in either Hong Kong dollars, or in local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.



CONTINGENT LIABILITIES

As at 30 September 2011, the Group had no material contingent liabilities (31 March 2011: Nil).

EMPLOYEES

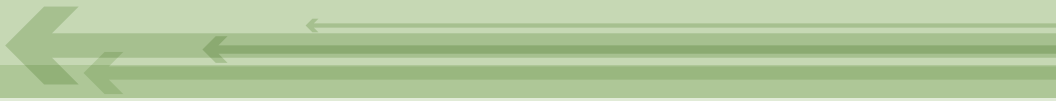
As at 30 September 2011, the Group has approximately 450 employees in total (31 March 2011: approximately 500). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

BUSINESS REVIEW AND OUTLOOK

With environmental protection, energy saving and high efficiency as its missions, the Group is committed to the research and application of renewable energy and focuses on the research on, design and production for, the development and utilisation of shallow ground energy to provide a wide range of technological services. The Group is relentless in the pursuit of the harmony between human beings and nature. Full efforts have been made to build the Group into the most competitive international green energy enterprise in the utilisation of ground source energy, and to introduce green energy to daily lives so as to improve the living environment of human beings, building a greener environment and a more harmonious society.

Ever Source Science and Technology Development Company Limited (“HY”), the core enterprise of the Group, has extensive experience and distinguished creativity in applying geothermal energy as an alternative energy for heating (cooling) in different regions and industries. The improvement and establishment of the five business models promoting ground source energy as an alternative source of energy for heating (cooling) have laid a solid foundation for the healthy growth of the Company.

The PRC is a major energy consumer country yet with very low energy efficiency, indicating substantial potential for the improvement of the efficiency of energy utilisation. Energy contracting management, the focus of government at each level, is a new mechanism designed to industrialize energy conservation business under market operation. The Company, by this opportunity to strengthen our energy contracting management business, has achieved remarkable results, evidenced by the project contracts entered into with one of the well-known property developers.



In September 2011, Dalian Wanghaixingcheng (旺海興城) project commenced construction in Xianyuwan Town of Wafangdian City, the national demonstration city for the application of renewable energy in building constructions in the PRC, becoming the spotlight of government, general public and the industry. In addition, such project is not only the Group's first self-built demonstration leasing project with application of ground source energy, but it is also a new energy conservation project of the first of its kind in the PRC that is built as a municipal infrastructure to provide ground source energy in a form of energy stations. The project fully demonstrates the Group's operating philosophy that features the using of shallow ground source energy as the alternative source of energy for traditional heating to the construction of low-carbon residential building that more suitable for living. It is also a significant milestone for the Group in terms of the promotion of ground source energy and the expansion of industrial chain.

Wanghaixingcheng project is one of the pioneers in utilizing machine-roomless closure type circulating geothermal heat exchanger heat pump environment system and realizing household-based electricity metering without any additional construction cost and enshrining the principle of "energy-saver gains". Household-based metering heat pump engine sets exclusively researched and developed by HYY and jointly manufactured by HYY and renowned home appliance manufacturers in the PRC are applied in the said project. The promotion and application of such technology helps to reduce daily household expenses significantly and proactively promote the utilisation of geothermal energy as an alternative energy source for heating (cooling) and to facilitate the compatibility and restructuring of the two sectors of heating and cooling.

During the period under review, the Group's turnover has declined but our profit margin has recorded a steady growth. The reason for the decline in turnover was that Dalian Wanghaixingcheng project, in which the Group has allocated more resources for its further development, is in the inception stage. On the other hand, the Group's operational mode is transforming from a company principally engaged in equipment installation into a company which, in addition to its existing business, also provides diversified comprehensive geothermal promotion solution with increased profit margin. In the subsequent development of the Group, it is believed that the development of these new operational modes will become the new growth driver for the business of the Group that enable the sustainable growth of the operating results of the Group and the further enhancement of the Group's competitiveness in the industry as well as playing a vital role in the industrial progress.

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 six months ended 30 September 2011 together with the unaudited comparative figures for the corresponding periods in 2010 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing operations					
Revenue		78,024	128,291	135,297	178,703
Cost of sales		(42,010)	(79,120)	(74,313)	(105,037)
Gross profit		36,014	49,171	60,984	73,666
Other income		3,084	12,955	5,600	14,008
Selling and distribution costs		(5,881)	(4,927)	(7,584)	(7,047)
Administrative expenses		(14,229)	(14,158)	(30,648)	(26,643)
Profit from operations		18,988	43,041	28,352	53,984
Share of results of associates		618	800	1,757	663
Share-based payments		(2,656)	(15,722)	(5,856)	(15,722)
Change in fair value of investment property		18,391	-	18,391	-
Finance costs		-	(3,370)	-	(7,488)
Profit before tax		35,341	24,749	42,644	31,437
Income tax expense	4	(12,792)	(618)	(16,436)	(2,150)
Profit for the period from continuing operations		22,549	24,131	26,208	29,287
Discontinued Operation					
Profit for the period from discontinued operation	5	-	13,783	-	12,482
Profit for the period	6	22,549	37,914	26,208	41,769

Condensed Consolidated Statement of Comprehensive Income (Cont'd)

For the six months ended 30 September 2011

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Other comprehensive income (expense):					
Exchange differences arising on translation of foreign operation		11,574	2,507	12,018	1,835
Release of exchange translation reserve upon disposal of subsidiaries		-	(6,218)	-	(6,218)
Other comprehensive income (expense) for the period		11,574	(3,711)	12,018	(4,383)
Total comprehensive income for the period		34,123	34,203	38,226	37,386
Profit attributable to:					
Owners of the Company		21,297	36,911	24,389	40,745
Non-controlling interests		1,252	1,003	1,819	1,024
		22,549	37,914	26,208	41,769
Total comprehensive income attributable to:					
Owners of the Company		31,308	32,733	34,703	35,604
Non-controlling interests		2,815	1,470	3,523	1,782
		34,123	34,203	38,226	37,386
Earnings per share					
From continuing and discontinued operations:					
Basic (HK cents)	8	1.03	2.11	1.18	2.35
Diluted (HK cents)		1.03	2.09	1.18	2.27
From continuing operations:					
Basic (HK cents)		1.03	1.32	1.18	1.63
Diluted (HK cents)		1.03	1.31	1.18	1.58

Condensed Consolidated Statement of Financial Position

At 30 September 2011

		30 September 2011 <i>HK\$'000</i> (Unaudited)	31 March 2011 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	58,750	50,791
Investment property	9	96,539	–
Prepaid lease payments		–	26,926
Deposit paid for acquisition of land use rights		61,024	59,455
Goodwill		445,850	444,551
Intangible assets		1,570	2,186
Interests in associates		72,094	69,363
Available-for-sale investments		488	476
Other receivable		7,683	7,486
Deferred tax assets		21,787	21,570
		765,785	682,804
Current assets			
Inventories		28,120	25,019
Trade and retention receivables	10	94,953	71,476
Prepayments, deposits and other receivables		36,289	56,451
Prepaid lease payments		–	553
Amounts due from customers for contract work		316,723	277,679
Amounts due from associates		2,853	–
Amounts due from non-controlling shareholders		4,910	3,092
Held-for-trading financial assets		7,556	50
Restricted bank balances		–	1,278
Short-term bank deposits		30,000	2,378
Cash held at non-bank financial institutions		1,579	692
Bank balances and cash		82,697	143,528
		605,680	582,196

Condensed Consolidated Statement of Financial Position (Cont'd)

At 30 September 2011

	Notes	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Current liabilities			
Trade payables	11	92,782	74,907
Accrued liabilities, deposits received and other payables		74,921	89,980
Amounts due to customers for contract work		17,437	9,675
Amounts due to non-controlling shareholders		12,705	10,270
Amount due to an associate		29,392	29,334
Tax payable		32,555	21,279
		259,792	235,445
Net current assets		345,888	346,751
Total assets less current liabilities		1,111,673	1,029,555
Non-current liabilities			
Deferred tax liabilities	12	11,901	–
Net assets		1,099,772	1,029,555
Capital and reserves			
Share capital	13	161,094	644,368
Reserves		907,394	361,999
Equity attributable to owners of the Company		1,068,488	1,006,367
Non-controlling interests		31,284	23,188
Total equity		1,099,772	1,029,555

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

	Attributable to owners of the Company										
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Capital reserve	Share-based payments 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
		(Note a)	(Note b)								
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	-	-	-	-	-	-	-	40,745	40,745	1,024	41,769
Other comprehensive (expense) income for the period	-	-	-	-	-	-	(5,141)	-	(5,141)	758	(4,383)
Total comprehensive (expense) income for the period	-	-	-	-	-	-	(5,141)	40,745	35,604	1,782	37,386
Disposal of subsidiaries	-	-	(5)	-	-	-	-	-	(5)	-	(5)
Exercise of share options	14,298	9,403	-	-	-	(8,560)	-	-	15,141	-	15,141
Conversion of convertible notes	26,871	95,384	-	(44,537)	-	-	-	-	77,718	-	77,718
Waiver of convertible notes	-	-	-	(18,473)	32,235	-	-	18,473	32,235	-	32,235
Cancellation of convertible notes	-	-	-	(24,900)	-	-	-	5,521	(19,379)	-	(19,379)
Grant of share options	-	-	-	-	-	15,722	-	-	15,722	-	15,722
Appropriations	-	-	(127)	-	-	-	-	127	-	-	-
At 30 September 2010 (unaudited)	570,556	622,654	1,007	-	32,235	33,402	1,572	(347,900)	913,526	47,019	960,545

Condensed Consolidated Statement of Changes in Equity (Cont'd)

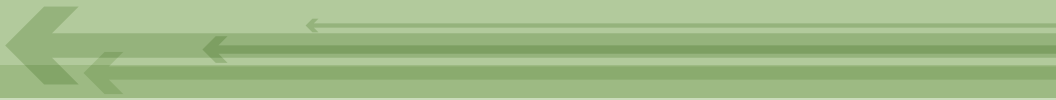
For the six months ended 30 September 2011

	Attributable to owners of the Company												
	Share capital	Share premium	Statutory reserve	Contributed surplus	Property revaluation reserve	Special reserve	Capital reserve	Share-based payments 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
	(Note a)	(Note b)	(Note c)	(Note d)	(Note e)	(Note f)							
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	-	-	-	-	-	-	-	-	-	24,389	24,389	1,819	26,208
Other comprehensive income for the period	-	-	-	-	-	-	-	-	10,314	-	10,314	1,704	12,018
Total comprehensive income for the period	-	-	-	-	-	-	-	-	10,314	24,389	34,703	3,523	38,226
Reduction of issued share capital	(483,274)	-	-	483,274	-	-	-	-	-	-	-	-	-
Utilisation of the contributed surplus account to offset balances of accumulated losses	-	-	-	(328,895)	-	-	-	-	-	328,895	-	-	-
Recognition of share-based payments expense	-	-	-	-	-	-	-	5,856	-	-	5,856	-	5,856
Surplus on revaluation of property	-	-	-	-	28,749	-	-	-	-	-	28,749	-	28,749
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	4,573	4,573
Deferred taxation liability arising from revaluation of property	-	-	-	-	(7,187)	-	-	-	-	-	(7,187)	-	(7,187)
At 30 September 2011 (unaudited)	161,094	624,541	2,094	154,379	21,562	(1,694)	32,235	45,336	30,972	(2,031)	1,068,488	31,284	1,099,772



Notes:

- (a) The share premium of the Group includes (i) the excess of the issue price over the nominal value of the Company's shares issued at a premium and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group's reorganisation scheme in preparation for the public listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Reorganisation") in 2001 over the nominal value of the share capital of the Company issued in exchange therefore.
- (b) In accordance with the relevant People's Republic of China (the "PRC") regulations and joint venture agreements, the Sino-foreign joint ventures established in the PRC shall set aside a portion of their respective profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of the respective entity.
- (c) 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 approximately HK\$328,895,000 was applied towards writing off the Company's accumulated losses as at 31 March 2011.
- (d) During the six months period ended 30 September, 2011, property revaluation surplus arising from transfer of owner-occupied prepaid lease payments to investment property at the date of change of use amounted to approximately HK\$29 million.
- (e) Special reserve represents the reserve arising from acquisition of additional interests of a subsidiary from non-controlling interests.
- (f) Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes.



Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Net cash inflow from operating activities	5,714	19,095
Net cash outflow from investing activities	(68,694)	(41,419)
Net cash inflow from financing activities	1,403	15,141
Decrease in cash and cash equivalents	(61,577)	(7,183)
Effect of foreign exchange rates changes	746	1,657
Cash and cash equivalents at beginning of the period	143,528	134,925
Cash and cash equivalents at end of the period	82,697	129,399



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Charter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Rules) and with Hong Kong Accounting Standard 34 (HKAS 34), Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical costs basis except for certain financial instruments and investment property, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011 except as described below.

Investment Properties

Investment properties are properties (including properties under construction or development for future use as investment properties) held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model and stated at fair value at the end of the reporting period. Gains or losses arising from changes in the fair value of investment properties are included as profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the condensed consolidated income statement in the year in which the item is derecognized.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2011.



2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Interpretation ("Int") 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs had no material effect on the condensed consolidated financial information of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised standards or amendments that have been issued but are not yet effective.

HKFRS 7 (amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosures of Interests in Other Entities ²
HKFRS 13	Fair value Measurement ²
HKAS 12 (amendments)	Deferred tax Recovery of Underlying Assets ³
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2012

The five new or revised standards on consolidation, joint arrangements and disclosures, namely HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 and HKAS 28 were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Early application is permitted provided that all of these five new or revised standards are applied early at the same time.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments.

Under the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

Also, HKFRS 13 Fair Value Measurement will affect the disclosures in relation to the Group's assets and liabilities measured at fair value or amortised cost.

The directors of the Company are in the process of assessing the potential impact of the above mentioned new or revised standards and amendments but are not yet in a position to state whether they would have material financial impact on the Group's result of operation and financial position.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker, being the directors of the Company, for the purpose of resource allocation and performance assessment are as follows:

The Group comprises the following reportable segments:

- (a) Shallow ground energy segment – provision, installation and maintenance of shallow ground energy utilisation system;
- (b) Securities investments and trading segment – trading of investment securities; and
- (c) Properties investments – leasing of investment properties.

During the six months period ended 30 September 2010, the Group completed the disposal of IIN Network Technology Limited and its subsidiaries ("IIN Network Technology Group") which were engaged in synthetical utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waster water and utilisation of new energy courses. Hence, this operating division is presented as discontinued operation during the six months period ended 30 September 2010.

(a) Segment revenue and results

	Continuing operations								
	Shallow ground energy		Securities investment and trading				Properties investments		Total
	Six months ended		Six months ended				Six months ended		Six months ended
	30 September		30 September				30 September		30 September
	2011	2010	2011	2010	2011	2010	2011	2010	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Revenue to external customers	135,297	178,703	-	-	-	-	135,297	178,703	
Segment results	41,232	54,027	(1,597)	(311)	17,921	-	57,556	53,716	
Share of results of associates							1,757	663	
Unallocated other income							454	-	
Unallocated expenses							(17,123)	(15,454)	
Finance costs							-	(7,488)	
Profit before tax							42,644	31,437	

3. SEGMENT INFORMATION (CONT'D)

(b) Segment assets

The following is an analysis of the Group's assets by reportable segments:

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Shallow ground energy	1,041,590	1,005,345
Securities investment and trading	8,044	9,064
Properties investments	96,539	–
Others	–	1,204
Total segment assets	1,146,173	1,015,613
Unallocated corporate assets	225,292	249,387
Consolidated total assets	1,371,465	1,265,000

4. INCOME TAX EXPENSE

	Three months ended 30 September		Six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing operations				
PRC Enterprise Income Tax	8,194	134	11,838	1,484
Deferred tax	4,598	484	4,598	666
	12,792	618	16,436	2,150

5. DISPOSAL OF SUBSIDIARIES

For the period ended 30 September 2010

- (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:

	From 1 July 2010 to 13 September 2010 HK\$ '000 (Unaudited)	From 1 April 2010 to 13 September 2010 HK\$ '000 (Unaudited)
Loss of environmental protection operation for the period	(2,266)	(3,567)
Gain on disposal of environmental protection operation	16,049	16,049
	<hr/>	<hr/>
	13,783	12,482

The results of the environmental protection operation for the period were as follows:

	From 1 July 2010 to 13 September 2010 HK\$ '000 (Unaudited)	From 1 April 2010 to 13 September 2010 HK\$ '000 (Unaudited)
Revenue	3,873	14,016
Cost of sales	(5,114)	(13,424)
Administrative expenses	(1,225)	(4,644)
Other revenue	200	485
Gain on disposal of subsidiaries	16,049	16,049
	<hr/>	<hr/>
Profit before tax	13,783	12,482
Income tax expense	-	-
	<hr/>	<hr/>
Profit for the period	13,783	12,482

5. DISPOSAL OF SUBSIDIARIES (CONT'D)

For the period ended 30 September 2010 (Cont'd)

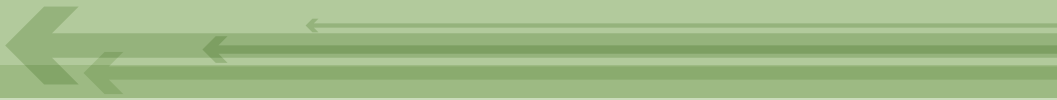
(a) (Cont'd)

Profit for the period from discontinued operation includes the following:

	From 1 July 2010 to 13 September 2010 <i>HK\$ '000</i> (Unaudited)	From 1 April 2010 to 13 September 2010 <i>HK\$ '000</i> (Unaudited)
Depreciation and amortisation	83	208

The net assets of IIN Network Technology Group at the date of disposal were as follows:

	<i>HK\$ '000</i>
Net assets disposed of:	
Property, plant and equipment	1,314
Inventories	2,953
Trade receivables	6,306
Prepayment, deposits and other receivables	10,568
Bank balances and cash	9,115
Trade payables	(3,301)
Other payables and accrued liabilities	(2,133)
Tax payables	(6,011)
Deferred income	(4,052)
	14,759
Release of exchange translation reserve	(808)
	13,951
Gain on disposal	16,049
Total consideration	30,000
Satisfied by:	
Cash	16,500
Consideration receivables (included in other receivables)	13,500
	30,000
Net cash inflow arising on disposal:	
Cash consideration	16,500
Bank balances and cash disposed of	(9,115)
	7,385



5. DISPOSAL OF SUBSIDIARIES (CONT'D)

- (b) On 4 August 2010, the Group disposed of a wholly-owned subsidiary, Hunan IIN International Co., Limited ("Hunan IIN") to an independent third party at a minimal consideration.

The net liabilities of Hunan IIN at the date of disposal were as follows:

	<i>HK\$ '000</i>
Net liability disposed of:	
Other payables and accrued liabilities	(356)
	(356)
Release of statutory reserve	(5)
Release of exchange translation reserve	(5,410)
	(5,771)
Gain on disposal	5,771
Total consideration	—
Satisfied by:	
Cash	—

Hunan IIN had no significant contribution to the turnover and results of the Group for the six months ended 30 September 2010.

6. PROFIT FOR THE PERIOD

The Group's profit for the period is arrived at after charging:

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Continuing operations:				
Cost of sales	42,010	79,120	74,313	105,037
Staff costs (including directors' emoluments)	9,087	7,310	17,780	14,973
Depreciation and amortisation	673	1,775	1,573	2,746
Payments under operating leases in respect of land and buildings	1,824	1,873	3,388	3,412
Share-based payments	2,656	15,722	5,856	15,722

7. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

8. EARNING PER SHARE

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

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Earnings for the purpose of basic earnings and diluted earnings per share	21,297	36,911	24,389	40,745
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,065,307	1,749,806	2,065,307	1,734,585
Effect of dilutive potential ordinary shares:				
Share options (Note)	–	18,827	–	56,498
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,065,307	1,768,633	2,065,307	1,791,083

Note:

The calculation of diluted earnings per share for the six months ended 30 September 2011 does not assume the exercise of share options because the exercise price of the Company's outstanding share options was higher than the average market price of shares for the six months ended 30 September 2011.

8. EARNING PER SHARE (CONT'D)

From continuing operations

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the company	21,297	36,911	24,389	40,745
Less: Profit for the period from discontinued operation	–	(13,783)	–	(12,482)
Earnings for the purposes of basic and diluted earnings per share from continuing operations	21,297	23,128	24,389	28,263

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

From discontinued operation

For the period ended 30 September 2010, basic earnings per share from discontinued operation is HK\$0.72 cents per share based on the profit for the period from the discontinued operation of approximately HK\$12,482,000 and the denominators detailed above for basic earnings per share.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six months period ended 30 September 2011, the Group incurred approximately HK\$6,999,000 (2010: approximately HK\$5,244,000) on acquisition of property, plant and equipment.

During the six months period ended 30 September 2011, the Group had transferred the prepaid lease payments of approximately HK\$62,855,000 (equivalent to RMB52,100,000) to investment property under construction.

The Group's investment property as at 30 September 2011 were fair valued by Peak Vision Appraisals Limited, an independent qualified professional valuer not connected to the Group. The resulting increase in fair value of investment property of approximately HK\$18,391,000 has been recognised directly in profit or loss for the six months ended 30 September 2011.

10. TRADE AND RETENTION RECEIVABLES

The Group allows an average credit period ranging from 30 to 180 days, and more than 365 days to its trade receivables and retention receivables respectively. The following is an aged analysis of trade and retention receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Within 90 days	63,346	39,791
91 – 180 days	3,919	3,923
181 – 365 days	20,483	20,534
Over 365 days	7,205	7,228
	94,953	71,476

11. TRADE PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting period.

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Within 90 days	22,865	17,301
91 – 180 days	19,779	7,612
181 – 365 days	8,558	14,709
Over 365 days	41,580	35,285
	92,782	74,907

12. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised during the six months period ended 30 September 2011 is resulting from the revaluation of the investment property.

13. SHARE CAPITAL

	Number of shares US\$0.01 each		Number of shares US\$0.04 each		Share Capital		Share Capital	
	30 September 2011 '000 (Unaudited)	31 March 2011 '000 (Audited)	30 September 2011 '000 (Unaudited)	31 March 2011 '000 (Audited)	30 September 2011 US\$'000 (Unaudited)	31 March 2011 US\$'000 (Audited)	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Authorised:								
At the beginning of the period/year	-	-	4,000,000	4,000,000	160,000	160,000	1,248,000	1,248,000
Capital reorganisation (Note)	16,000,000	-	(4,000,000)	-	-	-	-	-
At the end of the period/year	16,000,000	-	-	4,000,000	160,000	160,000	1,248,000	1,248,000

	Number of shares '000	Share capital HK\$'000
Issued and fully paid:		
At 1 April 2010, at US\$0.04 each (audited)	1,696,778	529,387
Conversion of convertible notes (Note 18(c))	86,125	26,871
Exercise of share options	45,825	14,298
At 30 September 2010, at US\$0.04 each (unaudited)	1,828,728	570,556
At 1 April 2011, at US\$0.04 each (audited)	2,065,307	644,368
Reduction of issued share capital (Note)	-	(483,274)
At 30 September 2011, at US\$0.01 each (unaudited)	2,065,307	161,094

13. SHARE CAPITAL (CONT'D)

Note:

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 23 March 2011 and the subsequent Order of the Grand Court of the Cayman Islands (the "Court") granted on 17 June 2011, the Company effected a capital reduction which took effect on 23 June 2011 (the "Capital Reduction"). The paid-up capital on each of its issued ordinary share of US\$0.04 was cancelled to the extent of US\$0.03 per share, and the nominal value of each of the issued ordinary shares of the Company was reduced from US\$0.04 per share to US\$0.01 per share. Immediately following the Capital Reduction, every authorised but unissued share of US\$0.04 each shall be sub-divided into four shares of US\$0.01 each in the capital of the Company fully paid up, or credited as being fully paid up (the "Subdivision"). Following the Capital Reduction and the Subdivision, the authorised share capital of the Company is US\$160,000,000 divided into 16,000,000,000 shares of US \$0.01 each.

A total credit of approximately HK\$483,274,000 arose as a result of the Capital Reduction of which an amount of approximately HK\$328,895,000 was applied towards writing off the accumulated losses of the Company as at 31 March 2011.

14. COMMITMENT

i) Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which are payable as follows:

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Within one year	6,259	6,160
In the second to fifth year inclusive	12,472	13,964
Over five years	21,788	22,125
	40,519	42,249

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases are negotiated for a term ranging from one to thirty years. No contingent rent was established in the leases.

14. COMMITMENT (CONT'D)

ii) Capital Commitments

	30 September 2011 HK\$'000 (Unaudited)	31 March 2011 HK\$'000 (Audited)
Contracted expenditure contracted but not provided in the condensed consolidated financial statements in respect of:		
– Capital injection in an associate	25,630	24,971
– Acquisition of property, plant and equipment	1,646	–
– Acquisition of land use rights	172,086	167,663
	199,362	192,634

15. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible employees and consultants of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 April 2011 and 30 September 2011	262,817,000

16. ACQUISITION OF A SUBSIDIARY

During the six months period ended 30 September 2011, there was injection of capital by 恆有源科技發展有限公司, a subsidiary of the Group, to 綿陽市金恒源地能科技有限公司 (“金恒源”). The Group's equity interest in 金恒源 had been increased from nil to 51%. 金恒源 is principally engaged in the production and sales of geothermal energy systems and was acquired with the objective of expanding the Group's business.

Analysis of assets and liabilities of 金恒源 over which control was obtained:

HK\$'000

Current assets	
Cash & cash equivalents	1,795
Other receivables and deposits	7,479
Inventories	287
Non-current asset	
Property, Plant and equipment	405
Current liabilities	
Trade payables	(479)
Other payables	(154)
	<hr/>
	9,333

Non-controlling interests

The non-controlling interest 49% in 金恒源 recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of 金恒源 and amounted to approximately HK\$4,573,000 (equivalent to approximately RMB3,849,000).

Goodwill arising on acquisition of a subsidiary

HK\$'000

Consideration transferred	6,060
Plus: non-controlling interests	4,573
Less: recognised amount of identifiable net assets acquired (100%)	(9,333)
	<hr/>
Goodwill arising on acquisition of a subsidiary	1,300

16. ACQUISITION OF A SUBSIDIARY (CONT'D)

Net cash outflow arising on acquisition of a subsidiary

HK\$'000

Consideration paid in cash	6,060
Less: cash and cash equivalent balances acquired	(1,795)

4,265

Impact of acquisition on the results of the Group

Included in the profit for the interim period is approximately HK\$148,000 (equivalent to approximately RMB122,000) attributable to 金恒源. Revenue for the period includes approximately HK\$5,200,000 (equivalent to approximately RMB4,300,000) is attributable to 金恒源.

17. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group entered into the following transactions with its non-controlling shareholder and associate:

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating lease payments paid to a non-controlling shareholder	623	588	1,245	1,177
Purchase from an associate	4,916	–	7,603	–
	5,539	588	8,848	1,177

17. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Short-term benefits	1,863	1,869	3,726	3,738
Retirement benefits scheme				
contributions	9	9	18	18
Share-based payments expenses	–	10,279	–	10,279
	1,872	12,157	3,744	14,035

18. MAJOR NON-CASH TRANSACTIONS

For the six months ended 30 September 2010

- (a) The settlement of compensation of approximately HK\$57,783,000 for shortfall in respect of the Profit Guarantee under the agreement for sale and purchase of the entire issued share capital of Beijing Enterprises Ever Sources Limited dated 21 December 2007 was effected through the cancellation of the same amount of convertible notes issued on 31 March 2008 during the six months ended 30 September 2010.
- (b) Convertible notes with carrying values of approximately HK\$32,235,000 has been waived for repayment by a substantial shareholder during the six months ended 30 September 2010.
- (c) Convertible notes with a face value of approximately HK\$103,350,000 were converted into 86,125,000 ordinary shares of US\$0.04 each in the Company.
- (d) Included in other receivables as at 30 September 2010, an amount of approximately HK\$13,500,000 unpaid consideration for the disposal of IIN Network Technology Group.

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

As at 30 September 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		Approximate percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Interests in shares				
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)	1.65%	30,750,000 (L)	74,824,000	-	3.62%
	Interest of spouse	10,074,000 (L)	0.49%	-			
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)	634,371,000	30.72%	
	Beneficial owner	608,300,000 (S)	29.45%	-			
	Interest of spouse	702,000 (L)	0.03%	-			

(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.

(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 September 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 September 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 5 June 2003 23 June 2009	7 March 2002 to 21 December 2011 5 June 2003 to 21 December 2011 23 June 2009 to 21 December 2011	1.8600 0.3120 0.3304	2,500,000 750,000 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 September 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 September 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
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

* Mr. Soo Kim Fui Jeffrey resigned as director of the Company with effect from 15 October 2011.

Save as disclosed above, as at 30 September 2011, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 September 2011, persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions and short positions in shares and equity derivatives

Name	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and capacity		Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
		Interest in shares					
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:

1. 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.
2. 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 September 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 September 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 September 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 September 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

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 September 2011	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
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

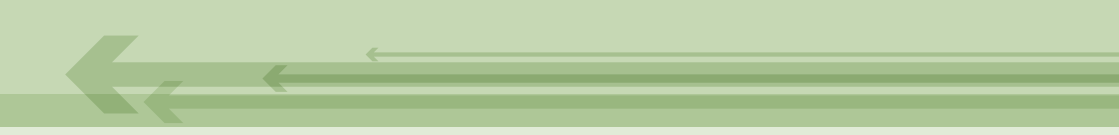
None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

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, and Mr. Wu Shu Min 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, 11 November 2011