



Interim Report

2008/09

CGS

CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

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

HIGHLIGHTS

Revenue recorded approximately HK\$163.5 million for the Review Period.

Loss attributable to equity holder of the Company for the Review Period amounted to approximately HK\$14.5 million.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

During the six months ended 31 March 2009 (“the Review Period”), the turnover of China Ground Source Energy Limited (the “Company”) and its subsidiaries (the “Group”) increased by 145% to HK\$163.5 million from approximately HK\$66.8 million of last year. The increase was mainly attributable to the consolidation of the results of shallow ground energy utilisation business.

During the Review Period, the Group’s turnover was contributed by shallow ground energy utilisation segment, environmental protection segment and the transmission segment, of which the shallow ground energy utilisation segment accounted for approximately HK\$108.1 million (corresponding period last year: nil), the environmental protection segment accounted for approximately HK\$16.7 million (corresponding period last year: HK\$13.6 million) and the transmission segment accounted for approximately HK\$38.7 million (corresponding period last year: HK\$53.3 million). With the consolidation of the environmental protection and shallow ground energy utilisation operations with a higher profit margin, the Group’s gross profit margin during the Review Period slightly increased to approximately 19.1% from approximately 18.2% for the corresponding period last year.

Due to the global economic downturn and the provision of imputed interests for the convertible notes issued for the two business acquisitions made during the period, the Group’s consolidated results attributable to shareholders turned from a profit of approximately HK\$1.3 million for the corresponding period last year to a loss of approximately HK\$14.5 million for the Review Period.

During the Review Period, the sales and distribution costs of the Group was approximately HK\$9.1 million, substantially increased by approximately 264% as compared to approximately HK\$2.5 million for the corresponding period last year, mainly due to the consolidation of shallow ground energy utilisation business and expansion of the scope of business.

During the Review Period, the Group's administrative expenses increased by 259% to approximately HK\$34.5 million from approximately HK\$9.6 million for the corresponding period last year, mainly due to the consolidation of shallow ground energy utilisation business and expansion of the scope of business.

ORDER BOOK

During the Review Period, the Group has secured approximately HK\$140.0 million contracts on hand.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets of the Group as at 31 March 2009 was approximately HK\$190.3 million (30 September 2008: approximately HK\$184.3 million). As at 31 March 2009, the Group had short-term cash and bank balances of approximately HK\$109.5 million (30 September 2008: approximately HK\$120.0 million) and financial assets of approximately HK\$18.3 million.

As at 31 March 2009, the Group's total bank and other borrowings amounted to approximately HK\$39.4 million (30 September 2008: approximately HK\$36.3 million) at fixed interest rates ranging from 7.25% per annum to 11.0% per annum which are repayable within one year or on demand.

CHARGES ON GROUP ASSET

As at 31 March 2009, the secured bank loans and other bank borrowings of the Group were secured by (1) charges on the Group's bank deposits of approximately HK\$790,000; (2) legal charges on the Group's plant and equipment and property with carrying value of approximately HK\$18.2 million; (3) guarantees by a director of a subsidiary of the Company.

GEARING RATIO

As at 31 March 2009, the gearing ratio of the Group was approximately 39.4% (30 September 2008: approximately 38.6%). The gearing ratio was calculated based on total liabilities over total assets.

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 the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

EMPLOYEES

As at 31 March 2009, the Group has employed 800 employees in total (30 September 2008: 600). The staff costs (including the directors' emoluments) amounted to approximately HK\$16.5 million (2008: approximately HK\$3.7 million which was excluded the staff costs of shallow ground energy utilisation segment) for the Review Period. The Group's policy of remuneration and bonus is fundamentally determined by reference to the performance of individual employee.

BUSINESS REVIEW AND PROSPECTS

SHALLOW GROUND ENERGY UTILISATION

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

BEES possesses the core technology of HYY ground source energy heat pump system where ground source energy is used as the alternative energy for heating, so as to provide heating and cooling for buildings as well as heating of domestic hot water. With the initial investment and operating costs equivalent to those of the traditional energy resources, ground source energy effectively ensures the market operations and enhances the market competitiveness of the enterprises. Currently, the buildings that utilize ground source energy for heating in China occupy an area of over 5 million square meters covering 19 provinces, cities and autonomous regions. The model projects in Mongolia and the US are also under smooth and stable operation.

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

Despite the financial tsunami and its considerable effects on the market, it is believed that the impacts of the crisis on the Company's business are temporary under the strong efforts of the PRC government to save energy and land as well as the promotion of using new energy resources.

ENVIRONMENTAL PROTECTION

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

Given the shrinking business operation of processing enterprises in the Pearl River Delta region as a result of the financial crisis, the Company's sewage treatment business was, to a certain extent, adversely affected. However, the sewage treatment project in Guanlan River managed to maintain its operation in normal condition. The Company endeavors to overcome these unfavorable conditions to ensure stable growth of the sewage treatment business.

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

TRANSMISSION

Due to falling product prices caused by stagnant demand, 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 zealously 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 and six months ended 31 March 2009 together with the unaudited comparative figures for the corresponding periods in 2008 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 31 March		Six months ended 31 March	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue	2	37,207	29,929	163,468	66,833
Cost of sales		(30,422)	(23,649)	(132,253)	(54,678)
Gross profit		6,785	6,280	31,215	12,155
Other revenue		9,269	1,338	11,967	4,128
Selling and distribution costs		(5,516)	(1,165)	(9,123)	(2,539)
Administrative expenses		(17,317)	(5,038)	(34,447)	(9,578)
Other operating expenses		(2)	(22)	(526)	(604)
Profit/(Loss) from operating activities		(6,781)	1,393	(914)	3,562
Share of results of associates and a jointly controlled entity		(484)	–	(486)	–
Finance costs		(7,226)	(686)	(15,471)	(1,458)
Profit/(Loss) before tax		(14,491)	707	(16,871)	2,104
Income tax credit/(expense)	3	1,285	(315)	1,199	(475)
Profit/(Loss) for the period	4	(13,206)	392	(15,672)	1,629
Attributable to:					
Equity holders of the Company		(11,531)	334	(14,470)	1,320
Minority interests		(1,675)	58	(1,202)	309
Profit/(Loss) for the period		(13,206)	392	(15,672)	1,629
Dividend	5	–	–	–	–
Earnings(loss) per share attributable to the equity holders of the Company	6				
– Basic (HK cent)		(0.20)	0.01	(0.26)	0.04
– Diluted (HK cent)		(0.17)	0.01	(0.21)	0.03

CONDENSED CONSOLIDATED BALANCE SHEET

		31 March 2009 HK\$'000 (Unaudited)	30 September 2008 HK\$'000 (Audited)
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	70,914	70,833
Interests in a jointly controlled entity		9,155	9,774
Interests in associates		35,809	36,365
Available-for-sales investments		487	489
Intangible assets	8	4,655	5,074
Prepaid land lease payments		3,733	3,733
Goodwill	9	906,862	906,862
		1,031,615	1,033,130
Current assets			
Inventories		85,785	92,174
Held-for-trading financial assets		18,334	14,502
Trade and retention receivables	10	99,403	101,369
Amounts due from customers for contract works		91,299	88,596
Amounts due from a minority shareholder		2,552	2,559
Amounts due from an associate		999	609
Prepayments, trade deposits, other deposits and other receivables		108,507	100,895
Cash and cash equivalents		109,523	120,041
		516,402	520,745
Current liabilities			
Trade and bills payables	11	76,720	66,116
Amounts due to customers for contract works		41,665	18,304
Accrued liabilities, deposits received and other payables		115,827	98,206
Interest-bearing bank and other loans		39,404	36,344
Amounts due to associates		41,130	89,766
Amounts due to a minority shareholder		3,692	21,968
Tax payable		7,687	5,745
		326,125	336,449

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

		31 March	30 September
		2009	2008
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Audited)
Net current assets		190,277	184,296
Total assets less current liabilities		1,221,892	1,217,426
Non-current liabilities			
Convertible notes		244,433	231,723
Deferred tax liabilities		19,729	21,826
Deferred income		19,107	9,989
Net assets		938,623	953,888
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	<i>12</i>	440,935	440,935
Reserves		443,034	457,610
		883,969	898,545
Minority interests		54,654	55,343
Total equity		938,623	953,888

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 March 2009

	Attributable to equity holders of the Company										
	Share capital	Share premium account	Convertible notes reserve	Statutory reserve	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2007	230,667	100,821	-	4	1,618	779	(1,084)	(202,037)	130,768	16,125	146,893
Issuance of new shares	210,268	415,809	-	-	-	-	-	-	626,077	-	626,077
Issuance of convertible notes	-	-	122,495	-	-	-	-	-	122,495	-	122,495
Deferred tax	-	-	(21,437)	-	-	-	-	-	(21,437)	-	(21,437)
Merger and acquisition of additional minority interests	-	-	-	-	-	-	-	-	-	80,108	80,108
Net profit for the period	-	-	-	-	-	-	3,167	1,320	4,487	309	4,796
At 31 March 2008	440,935	516,630	101,058	4	1,618	779	2,083	(200,717)	862,390	96,542	958,932
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	-	-	-	285	-	-	-	(285)	-	-	-
Exchange fluctuation	-	-	-	-	-	-	(106)	-	(106)	513	407
Net loss for the period	-	-	-	-	-	-	-	(14,470)	(14,470)	(1,202)	(15,672)
At 31 March 2009	440,935	516,630	123,680	289	1,321	779	7,957	(207,622)	883,969	54,654	938,623

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 31 March 2009*

	Six months ended 31 March	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	4,790	(28,999)
Net cash inflow/(outflow) from investing activities	(22,133)	(175,709)
Net cash inflow/(outflow) from financing activities	6,934	267,981
Increase/(decrease) in cash and cash equivalents	(10,409)	63,273
Effect of foreign exchange rates, net	(109)	1,165
Cash and cash equivalents at beginning of period	120,041	91,400
Cash and cash equivalents at end of period	109,523	155,838

NOTES:**1. BASIS OF PREPARATION**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements as set out in Chapter 18 of the GEM Listing Rules.

The accounting policies adopted in preparing the unaudited consolidated financial statements for the six months ended 31 March 2009 are consistent with those followed in the annual report of the Company 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. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the transmission segment consists of manufacturing and marketing of communication cables and optical cables, primarily for communications sectors.
- (b) the shallow ground energy utilisation segment consists of the provision of heating and cooling system for buildings with the use of shallow ground energy and development of related technology which can contribute to energy saving and environmental protection.
- (c) the environmental protection segment consists of utilization of marsh gas, disposal and handling of solid garbage and solid dangerous rejectamenta, disposal of sewage and waste water and utilization of new energy sources.
- (d) the securities investment and trading consists of Group’s investment in securities and trading of investment securities.
- (e) the corporate and other segment consists of the Group’s investment holding, corporate assets and liabilities items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business Segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group	Transmission		Shallow ground energy utilisation		Environmental protection		Securities investment and trading		Corporate and other		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	31 March		31 March		31 March		31 March		31 March		31 March	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue to external customers	38,741	53,249	108,060	-	16,666	13,584	-	-	-	-	163,467	66,833
Segment results	120	2,014	2,278	-	1,096	2,940	-	-	(8,062)	(5,520)	(5,108)	(566)
Unallocated other revenue											3,708	4,128
Profit/(loss) from operating activities											(1,400)	3,562
Finance costs											(15,471)	(1,458)
Profit/(loss) before tax											(16,871)	2,104
Income tax expense											1,199	(475)
Profit/(loss) for the period											(15,672)	1,629

Group	Securities										Consolidated	
	Transmission		Shallow ground energy utilisation		Environmental protection		investment and trading		Corporate and other			
	31 March 2009	30 September 2008	31 March 2009	30 September 2008	31 March 2009	30 September 2008	31 March 2009	30 September 2008	31 March 2009	30 September 2008	31 March 2009	30 September 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment assets	72,098	70,035	427,455	411,355	55,630	56,823	18,334	14,502	7,439	6,770	580,956	559,485
Unallocated assets											967,061	994,390
Total assets											1,548,017	1,553,875
Segment liabilities	62,982	56,916	249,618	261,963	31,805	32,941	-	-	3,953	7,341	348,358	359,161
Unallocated liabilities											261,036	240,826
Total liabilities											609,394	599,987
Other segment information												
Depreciation of property, plant and equipment	920	1,918	1,045	1,049	1,361	1,687	-	-	781	837	4,107	5,491
Property, plant and equipment written off	-	102	-	-	-	-	-	-	-	-	-	102
Amortisation of prepaid land lease payments	42	85	-	-	-	-	-	-	-	-	42	85
Provision of allowance for doubtful debts	-	-	-	7,183	-	-	-	-	-	-	-	7,183
Reversal of allowance for doubtful debts	-	(1,307)	-	-	-	-	-	-	-	-	-	(1,307)
Reversal of bad debts written off	-	-	-	(14,804)	-	-	-	-	-	-	-	(14,804)
Surplus arising on revaluation of leasehold land and buildings-recognised directly in equity	-	(582)	-	-	-	-	-	-	-	-	-	(582)
Capital expenditure	1,634	2,262	16,342	9,070	2,579	6,279	-	-	1,578	4,763	22,133	22,374
Impairment of goodwill	-	-	-	-	-	-	-	-	-	1,269	-	1,269

(b) Geographical Segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

3. INCOME TAX EXPENSE

	Six months ended 31 March	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC corporate income tax	898	475
Deferred tax	(2,097)	–
	(1,199)	475

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 31 March 2009 (2008: Nil).

PRC corporate income tax has been provided at the relevant tax rate of the net assessable profits attributable to the Group's operations in the PRC during the six months ended 31 March 2009 (2008: Nil).

Deferred tax represents the imputed interest incurred from the convertible notes amounting to approximately HK\$12,710,000 calculated at Hong Kong profits tax rate of 16.5%. Details of the convertible notes are set out in the Company's circulars dated 3 October 2007 and 29 February 2008.

4. PROFIT/(LOSS) FOR THE PERIOD

The Group's profit/(loss) from operating activities is arrived at after charging:

	Three months ended 31 March		Six months ended 31 March	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Cost of sales	30,422	23,649	132,253	54,678
Staff costs (including directors' emoluments)	8,596	1,800	16,483	3,736
Depreciation	2,797	982	4,107	1,691
Minimum lease payments under operating leases in respect of land and buildings	2,163	459	4,027	654

5. DIVIDEND

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

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

The calculation of basic earnings/(loss) per share for the six months ended 31 March 2009 is based on the unaudited consolidated loss attributable to the equity holders of the Company of approximately HK\$14,470,000 (2008: a profit of approximately HK\$1,320,000) and the weighted average of 5,653,112,470 shares (2008: 3,728,297,092 shares) in issue during the periods.

7. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group were:

	31 March	30 September
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Net book value, beginning of period/year	70,833	17,373
Acquisition of subsidiaries	–	34,170
Additions	4,394	22,374
Disposals	–	(102)
Depreciation	(4,107)	(5,491)
Translation adjustment	(206)	3,091
Revaluation	–	(582)
	<hr/>	<hr/>
Net book value, end of period/year	70,914	70,833
	<hr/> <hr/>	<hr/> <hr/>

8. INTANGIBLE ASSETS

Intangible assets of the Group includes:

	31 March	30 September
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Net book value, beginning of period/year	5,074	–
Additions	–	5,542
Amortisation	(404)	(597)
Exchange alignment	(15)	129
	<hr/>	<hr/>
Net book value, end of period/year	4,655	5,074
	<hr/> <hr/>	<hr/> <hr/>

9. GOODWILL

	31 March 2009 HK\$'000 (Unaudited)	30 September 2008 HK\$'000 (Audited)
Net book value, beginning of period/year	906,862	1,269
Additions	–	906,862
Impairment	–	(1,269)
	906,862	906,862

10. TRADE AND RETENTION RECEIVABLES

Trade and retention receivables are generally with credit terms pursuant to the provisions of the relevant contracts, which are recognized and stated at the original invoice amount, estimated for doubtful debts, and reduced to the extent that they are no longer probable to be fully recovered.

An ageing analysis of the Group's trade and retention receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	31 March 2009 HK\$'000 (Unaudited)	30 September 2008 HK\$'000 (Audited)
0 – 90 days	27,474	33,943
91 – 180 days	36,917	28,358
181– 365 days	19,576	22,678
Over 365 days	15,436	16,390
	99,403	101,369

11. TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

	31 March	30 September
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 – 90 days	21,571	18,590
91 – 180 days	19,127	16,483
181 – 365 days	16,373	14,110
Over 365 days	19,649	16,933
	76,720	66,116

12. SHARE CAPITAL

	31 March	30 September
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Authorised:		
8,000,000,000 (30 September 2008: 8,000,000,000)		
ordinary shares of US\$0.01 each	624,000	624,000
Issued and fully paid:		
5,653,112,470 (30 September 2008: 5,653,112,470)		
ordinary shares of US\$0.01 each	440,935	440,935

13. COMMITMENTS

i) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to thirty years. As at 31 March 2009, the Group had total future minimum lease payments under non-cancellation operating leases which will fall due in the following periods:

	31 March 2009 HK\$'000 (Unaudited)	30 September 2008 HK\$'000 (Audited)
Within one year	7,439	7,868
From second year to fifth year (both years inclusive)	14,055	18,303
After fifth year	37,221	39,665
	58,715	65,836

ii) Capital commitments contracted for

At the balance sheet date, the Group had the following outstanding capital commitments:

	31 March 2009 HK\$'000 (Unaudited)	30 September 2008 HK\$'000 (Audited)
Contracted but not provided for		
– Capital injection in an associate	12,507	12,507

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

As at 31 March 2009, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(A) LONG POSITION IN SHARES

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares			
Ms. Chan Wai Kay, Katherine (Note 1)	Interest of spouse	40,296,000	0.71%	–	40,296,000	0.71%
Mr. Wu Shu Min (Note 2)	Beneficial owner	146,023,000	2.58%	13,000,000	159,023,000	2.81%
Mr. Xu Shengheng (Note 3)	Beneficial owner	1,012,656,000	17.91%			
	Interest of spouse	2,808,000	0.05%			
	Interest of controlled corporation	–	–	680,000,000	1,695,464,000	29.99%

Notes:

1. Mr. Chow Ming Joe Raymond ("Mr. Chow"), spouse of Ms. Chan Wai Kay, Katherine ("Ms. Chan"), holds 40,296,000 shares of the Company ("Shares"). Under the SFO, Ms. Chan is deemed to be interested in 40,296,000 Shares in which Mr. Chow is interested.
2. 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.
3. Mr. Xu Shengheng ("Mr. Xu") holds 1,012,656,000 Shares. Ever Sincere Investment Ltd. ("Ever Sincere") is 100% owned by Mr. Xu. Ms. Luk Hoi Man ("Ms. Luk"), is the spouse of Mr. Xu, holds 2,808,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in 1,012,656,000 Shares, 2,808,000 Shares in which Ms. Luk is interested 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.

(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 March 2009, the following director of the Company was interested in the following options under the Scheme:

Name of director	Number of share options outstanding as at 1 October 2008 and 31 March 2009	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

Save as disclosed above, as at 31 March 2009, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules. At any time during the reporting period, there was no debt securities issued by the Group.

INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 31 March 2009, persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

LONG POSITIONS

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
Lei Dong Ling (Note 1)	Interest of spouse	146,023,000	2.58%	13,000,000	159,023,000	2.81%
China Standard Limited (Note 2)	Beneficial owner	500,000,000	8.84%	400,000,000	900,000,000	15.92%
Financial International Holdings Ltd. (Note 3)	Beneficial owner	423,652,000	7.49%	–	423,652,000	7.49%
Cheung Kwan (Note 3)	Beneficial owner	183,160,000	3.24%	–	606,812,000	10.73%
	Interest of controlled corporation	423,652,000	7.49%	–		
AIG Global Investment Corp. (Asia) Ltd.	Investment manager	389,000,000	6.88%	–	389,000,000	6.88%

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 4)	Beneficial owner	-	-	680,000,000	680,000,000	12.03%
Luk Hoi Man (Note 5)	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		

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 423,652,000 Shares.
- These are conversion shares issuable upon the exercise of the conversion rights attached to the convertible notes which were issued to Ever Sincere Investment Limited ("Ever Sincere") pursuant to the acquisition, details of which can be referred to the Company's circular dated 29 February 2008.
- Ms. Luk Hoi Man ("Ms. Luk"), is the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 2,808,000 Shares. Mr. Xu holds 1,012,656,000 Shares. Ever Sincere Investment Ltd. ("Ever Sincere") is 100% owned by Mr. Xu. Therefore, under SFO, Ms. Luk is deemed to be interested in 2,808,000 Shares, 1,012,656,000 Shares in which Mr. Xu is interested 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.

Save as disclosed above, as at 31 March 2009, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

OUTSTANDING SHARE OPTIONS

THE SCHEME

As at 31 March 2009, options to subscribe for an aggregate of 27,300,000 shares were outstanding (including the director of the Company as disclosed above). Details of which as at 31 March 2009 were as follows:

Date of grant of share options	As at 1 October 2008	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	As at 31 March 2009	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.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has complied with the code provisions of the Code on Corporate Governance Practice (the "CG Code") set out in Appendix 15 of the GEM Listing Rules throughout the Review Period, except for the following deviations:

- (i) The roles of chairman and chief executive officer should be separate and should not be performed by the same individual;

- (ii) The non-executive directors should be appointed for a specific term, subject to re-election; and
- (iii) The Company has failed to comply with Rule 5.05(1) of the GEM Listing Rules during certain period of the Review Period.

CODE PROVISION A.2.1

During certain period of the Review Period, the responsibilities of chairman and the chief executive officer of the Company were performed by Mr. Wu Shu Min, our former Chairman. The Company has re-complied with this code provision since 25 March 2009 by the appointments of Ms. Chan Wai Kay Katherine as Chairman and Mr. Xu Shengheng as chief executive officer of the Company.

CODE PROVISION A.3

After the resignation of Mr. Liu Yang as independent non-executive Director of the Company on 17 December 2008, the Company has failed to comply with Rule 5.05(1) of the GEM Listing Rules which requires a listed issuer should have at least three independent non-executive directors. The Company has re-complied with this rule since 25 March 2009 by the appointment of Mr. Jia Wenzeng as independent non-executive director.

CODE PROVISION A.4.1

During certain period of the Review Period, one of the independent non-executive director was not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. The Company has re-complied with this code provision since 25 March 2009 for all appointments of non-executive director and independent non-executive directors are appointed for a specific term.

AUDIT COMMITTEE

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

The audit committee currently comprises three independent non-executive Directors, namely, Mr. Jia Wenzeng, Ms. Laura Chan Man Kuen and Mr. Paul Chow Wan Hoi. Mr. Jia Wenzeng is the chairman of the audit committee. The audit committee has reviewed the Group's unaudited results for the Review Period and has provided advice and comment thereon.

SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

As at the date of this report, the Board comprises Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

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

Hong Kong, 15 May 2009