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CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

INTERIM REPORT

2010

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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\$179 million.

Net profit after tax attributable to owners of the Company for the Review Period amounted to approximately HK\$41 million. This represents a turnaround from a loss of HK\$158 million in the same period last year to a profit of HK\$41 million in the Review Period.

No dividend was declared for the Review Period.

FINANCIAL REVIEW

The following table provides a brief summary of our Group's financial results. For more detailed information, please refer to the unaudited consolidated financial statements for the periods ended 30 September 2010 (the "Review Period") and 30 September 2009.

	Three months		Six months	
	Ended 30 September	Ended 30 September	Ended 30 September	Ended 30 September
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Continuing operations:				
<i>Revenue</i>				
– Shallow ground energy utilization system	128,291	115,517	178,703	178,900
– Dividend income	–	–	–	1,256
Total revenue from continuing operations	128,291	115,517	178,703	180,156
Discontinued operations:				
<i>Revenue</i>				
– Sewage and gas treatment income	3,873	6,480	14,016	11,941
– Sales of communication cables and optical cables	–	28,800	–	45,578
Total revenue from discontinued operations	3,873	35,280	14,016	57,519
Profit/(loss) for the period	37,914	(128,352)	41,769	(157,196)
Profit/(loss) attributable to owners of the Company	36,911	(133,314)	40,745	(158,287)

During the Review Period, the Group's revenue amounted to approximately HK\$178.7 million which was contributed by shallow ground energy utilization segment as compared with HK\$178.9 million for the corresponding period last year.

On 27 August 2010, the Board announced the disposal of the entire interest in sewage and gas treatment segment and therefore, this segment has been classified as discontinued operations in the Review Period.

The Group's gross profit margin (excluding dividend income) for the Review Period mainly contributed by shallow ground energy segment, were 41.22% and 40.65% for the six months ended 30 September 2010 and 2009 respectively.

Administrative expenses amounted to HK\$42 million and HK\$69 million for the six months ended 30 September 2010 and 2009 respectively. The decrease is mainly due to a lower stock compensation expense of share option with vesting period of 1-3 years.

Selling and distribution costs increased by approximately HK\$2.4 million, or 52% as compared with that of six months ended 30 September 2009. The increase is primarily due to the increase of after sales service cost of company projects.

Finance costs decreased by 39% to HK\$7.5 million for the six months ended 30 September 2010 as compared with that of the corresponding period last year. The decrease in interest expense reflects lower debt levels due to conversion of convertible notes to ordinary share capital on 14 September 2010.

ORDER BOOK

As at 30 September 2010, the Group has contracts on hand of approximately HK\$216 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets of the Group as at 30 September 2010 was approximately HK\$350 million (31 March 2010: approximately HK\$286 million). As at 30 September 2010, the Group had cash and bank balances of approximately HK\$130 million (31 March 2010: approximately HK\$135 million). Cash on our balance sheets include funds available for general corporate purposes.

Non-controlling interest amounted to HK\$47 million represents mainly the share of profit attributable to minority shareholders of the Group's subsidiaries in the PRC.

As of 14 September 2010, the convertible bonds were converted to ordinary shares capital. For more details of the conversion, please refer to the Company's announcement dated 14 September 2010 on the GEM website.

CHARGES ON GROUP ASSET

As at 30 September 2010, no Group asset has been charged.

GEARING RATIO

Following the conversion of the convertible bonds on 14 September 2010 and as at 30 September 2010, the gearing ratio of the Group was 0% (31 March 2010: approximately 19%). The gearing ratio was calculated based on total borrowings (including interest bearing bank loans and convertible notes) to the equity (including all capital and reserves).

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.

EMPLOYEES

As at 30 September 2010, the Group has approximately 500 employees in total (31 March 2010: 450, excluding discontinued operations). Salaries and the related costs increased by 7.3% to approximately HK\$15 million. These increases were due to increase of headcount and related employee benefits.

BUSINESS REVIEW AND PROSPECTS

In 2008, the Group completed its integration of shallow ground energy utilisation business. Since then, such business has become the principal activities of the Group. Given the potentials of Beijing Enterprises Ever Source Ltd. and its subsidiaries ("HYY"), together with its distinct and exact development, the Group was able to share the continuing benefits in both revenue and earnings and substantially improved its financial performance. This creates a solid foundation for the Group's future development.

During the Review Period, the Group focused on establishing ground source energy as an alternative source of energy for heating. Its strength has been well demonstrated by its replicable expansion model.

During the Review Period, HYY promoted its ground source energy heat pump systems for heating/cooling, which use ground source energy as an alternative source of energy for heating, to more than 7 million square meters of buildings area throughout the PRC. Its relative costs advantages over conventional energy in terms of investment required and operating costs have been proven and confirmed by various practices and by our customers.

As the Group has focused on its principal activities mainly use of the ground source energy as an alternative source of energy for heating, thus the improved results of our principal activities have been recognised in the Group's financial results of the Review Period.

With the aggregate heat energy consumption level in the State's designated heat provision regions has reached 10% of the total energy consumption of the country, together with the improvement in peoples' living standard and the rising demand for heating from those non-State designated heat provision regions, the energy consumption level for heating will further increase. The general trend for heating and energy consumption is to lift peoples' living standard while restricting energy consumption increase and utilising energy by the most scientifically reasonable categorisation. Among the new energy, ground source energy heat is, given the current trend, the only alternative source of clean energy for heating to replace fossil energy. The HYY ground source energy heat pump systems are based on the ground source energy heat collection method, a foreign invention, as its core technology. Due to its mature technology and craftsmanship as well as its contribution level and operating costs are comparable to the conventional energy, it will have enormous development potential under the replicable expansion model. It is expected that the shallow ground energy heat utilisation will continue to expand and develop rapidly.

For the purpose of focusing its resources in developing shallow ground energy utilisation business and in consideration of the unsatisfactory performance of Shenzhen Lisai Industrial Development Co., Ltd. ("Shenzhen Lisai"), the Group had subsequently disposed of its shareholding interests in Shenzhen Lisai during the Review Period. For more details of this disposal, please refer to the Company's announcement dated 27 August 2010. Shenzhen Lisai was principally engaged in the operation of Xiaping landfill site.

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 2010 together with the unaudited comparative figures for the corresponding periods in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Continuing Operations					
Revenue		128,291	115,517	178,703	180,156
Cost of sales		(79,120)	(53,217)	(105,037)	(105,650)
Gross profit		49,171	62,300	73,666	74,506
Other operating income		12,955	23,175	14,008	33,996
Selling and distribution costs		(4,927)	(2,493)	(7,047)	(4,626)
Administrative expenses		(29,880)	(29,129)	(42,365)	(69,659)
Other operating expenses		-	(11,604)	-	(11,772)
Profit from operations		27,319	42,249	38,262	22,445
Share of results of associates and jointly controlled entity		800	492	663	361
Finance costs		(3,370)	(4,615)	(7,488)	(12,354)
Profit before tax		24,749	38,126	31,437	10,452
Income tax (expense)/credit	4	(618)	1,162	(2,150)	500
Profit for the period from continuing operations		24,131	39,288	29,287	10,952
Discontinued Operation					
Profit (loss) for the period from discontinued operation	5	13,783	(167,640)	12,482	(168,148)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

For the six months ended 30 September 2010

	Notes	Three months ended 30 September		Six months ended 30 September	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited) (Restated)
Profit/(Loss) for the period	6	37,914	(128,352)	41,769	(157,196)
Other comprehensive income/(expense):					
Exchange differences arising on translation of foreign operation		2,507	3,286	1,835	2,507
Release of exchange translation reserve upon disposal of subsidiaries		(6,218)	(515)	(6,218)	(515)
Release of asset revaluation reserve in relation to leasehold buildings upon disposal of subsidiaries		-	1,321	-	1,321
Other comprehensive (expense)/income for the period		(3,711)	4,092	(4,383)	3,313
Total comprehensive income/(expense) for the period		34,203	(124,260)	37,386	(153,883)
Profit/(loss) attributable to:					
Owners of the Company		36,911	(133,314)	40,745	(158,287)
Non-controlling interests		1,003	4,962	1,024	1,091
		37,914	(128,352)	41,769	(157,196)
Total comprehensive income/(expense) attributable to:					
Owners of the Company		32,733	(133,143)	35,604	(158,887)
Non-controlling interests		1,470	8,883	1,782	5,004
		34,203	(124,260)	37,386	(153,883)
Earnings/(loss) per share					
From continuing and discontinued operations:					
Basic-(HK Cents)	8	2.11	(7.90)	2.35	(10.06)
Diluted-(HK Cents)		2.09	(7.90)	2.27	(10.06)
From continuing operations:					
Basic-(HK Cents)		1.32	2.03	1.63	0.63
Diluted-(HK Cents)		1.31	2.03	1.58	0.63

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2010

	Notes	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	31,302	29,808
Deposit paid for acquisition of land use rights		57,754	56,787
Goodwill		447,278	505,062
Intangible assets		2,729	3,280
Interest in associates		35,661	34,998
Available-for-sales investments		462	488
Other receivable		13,094	12,875
Deferred tax assets		22,527	22,802
		610,807	666,100
Current assets			
Inventories		76,825	71,092
Trade and retention receivables	10	63,195	68,519
Prepayment, other deposits and other receivables		100,691	78,264
Amounts due from customers for contract works		257,830	160,424
Amounts due from non-controlling shareholders		4,647	4,570
Held-for-trading financial assets		61	56
Cash held at non-bank financial institutions		693	692
Bank balances and cash		129,399	134,925
		633,341	518,542
Current liabilities			
Trade payables	11	96,120	84,113
Accrued liabilities, deposits received and other payables		110,387	69,812
Amounts due to customers for contract works		17,669	17,321
Amounts due to non-controlling shareholders		10,348	9,806
Amounts due to associates		40,449	36,257
Amount due to an investee company		–	1,317
Tax payable		8,630	13,912
		283,603	232,538
Net current assets		349,738	286,004
Total assets less current liabilities		960,545	952,104

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 30 September 2010

		30 September	31 March
		2010	2010
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current liabilities			
Convertible notes	12	–	145,919
Deferred income		–	4,458
		–	150,377
Net assets		960,545	801,727
Capital and reserves			
Share capital	13	570,556	529,387
Reserves		342,970	227,103
Equity attributable to owners of the Company		913,526	756,490
Non-controlling interests		47,019	45,237
Total equity		960,545	801,727

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000 (Note a)	Statutory reserve HK\$'000 (Note b)	Convertible notes reserve HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2009 (as originally stated)	440,935	516,630	289	123,680	-	1,321	779	7,957	(207,622)	883,969	54,654	938,623
Restatement of prior periods and opening balances	-	-	-	24,440	-	-	-	(69)	(6,426)	17,945	1,377	19,322
At 1 April 2009 (as restated)	440,935	516,630	289	148,120	-	1,321	779	7,888	(214,048)	901,914	56,031	957,945
Loss for the period	-	-	-	-	-	-	-	-	(158,287)	(158,287)	1,091	(157,196)
Other comprehensive (expense) income for the period	-	-	-	-	-	(1,321)	-	(595)	1,316	(600)	3,913	3,313
Total comprehensive income (expense)	-	-	-	-	-	(1,321)	-	(595)	(156,971)	(158,887)	5,004	(153,883)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	(11,384)	(11,384)
Placing of new shares	85,800	-	-	-	-	-	-	-	-	85,800	-	85,800
Transaction costs attributable to placing of new shares	-	(507)	-	-	-	-	-	-	-	(507)	-	(507)
Recognition of share-based payment expenses	-	-	-	-	-	-	26,357	-	-	26,357	-	26,357
Acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	(6,318)	(6,318)	-	(6,318)
Appropriations	-	-	18	-	-	-	-	-	(18)	-	-	-
At 30 September 2009 (as restated)	526,735	516,123	307	148,120	-	-	27,136	7,293	(377,355)	848,359	49,651	898,010

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

For the six months ended 30 September 2010

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Capital reserve	Asset revaluation reserve	Share-based payment reserve	Exchange fluctuation reserve	Accumulated losses	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
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 income (expense) for the period	-	-	-	-	-	-	-	(5,141)	-	(5,141)	758	(4,383)
Total comprehensive income (expense)	-	-	-	-	-	-	-	(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

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 joint ventures.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 September 2010*

	Six months ended	
	30 September	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Net cash inflow (outflow) from operating activities	19,095	(4,920)
Net cash outflow from investing activities	(41,419)	(50,407)
Net cash inflow from financing activities	15,141	79,256
(Decrease) increase in cash and cash equivalents	(7,183)	23,929
Effect of foreign exchange rates changes	1,657	(2,039)
Cash and cash equivalents at the beginning of period	134,925	109,741
Cash and cash equivalents at end of period	129,399	131,631

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2010

I. 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”).

Due to change in the financial year and date of the Group from 31 March to 30 September in preceding financial year, the corresponding comparative amounts shown for the unaudited condensed consolidated income statement, unaudited condensed consolidated statement of change in equity, unaudited condensed consolidated cash flows statement and related notes have been restated in order to be consistent with current period's presentation.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical costs basis except for certain financial instruments, 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 six months ended 31 March 2010 except as described below.

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 2010.

Hong Kong Financial Reporting Standards (“HKFRSs”) (Amendments)	Improvements to HKFRSs 2009
Hong Kong Accounting Standard (“HKAS”) 32 (Amendment)	Classification of Right Issues
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ²
HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets ⁵
HKFRS 9	Financial Instruments ⁴
HK(IFRIC)-Interpretation (“Int”) 14 (Amendment)	Prepayments of a Minimum Funding Requirement ³
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ²

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 January 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 July 2011.

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker (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) Environmental protection segment – synthetic utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waste water and utilisation of new energy sources;
- (c) Securities investments and trading segment – trading of investment securities; and
- (d) Other segment – provision and sale of telecommunications network infrastructure solutions and network management solutions.

During the 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 synthetic utilisation of marsh gas, disposal and handling of solid garbage, solid dangerous rejectamenta, sewage, and waste water and utilisation of new energy sources. Hence, this operating division is presented as discontinued operation during the period ended 30 September 2010.

3. SEGMENT INFORMATION (Cont'd)

(a) Segment revenue and results

	Continuing operations							
	Securities investment							
	Shallow ground energy		and trading		Others		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2010	2009	2010	2009	2010	2009	2010	2009
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	(Restated)		(Restated)		(Restated)		(Restated)	
Revenue to external customers	178,703	178,900	-	1,256	-	-	178,703	180,156
Segment results	54,027	125,378	(311)	(65,936)	-	(1,002)	53,716	58,440
Share of losses of associates and jointly controlled entity							663	361
Unallocated expenses							(15,454)	(35,995)
Finance costs							(7,488)	(12,354)
Profit before tax (continuing operations)							31,437	10,452

3. SEGMENT INFORMATION (Cont'd)**(b) Segment assets**

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

Continuing operations

	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Shallow ground energy	1,159,221	859,770
Securities investment and trading	1,073	21,824
Others	-	1,382
	<hr/>	<hr/>
Total segment assets	1,160,294	882,976
	<hr/>	<hr/>
Unallocated corporate assets	83,854	301,666
	<hr/>	<hr/>
Consolidated assets	1,244,148	1,184,642

4. INCOME TAX EXPENSE/(CREDIT)

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
PRC corporate income tax	134	1,119	1,484	1,370
Deferred tax	484	(2,281)	666	(1,870)
	<hr/>	<hr/>	<hr/>	<hr/>
	618	(1,162)	2,150	(500)

5. DISPOSAL OF SUBSIDIARIES

- (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)	Three months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)	From 1 April 2010 to 13 September 2010 HK\$'000 (Unaudited)	Six months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)
Loss of environmental protection operation for the period	(2,266)	(6,212)	(3,567)	(6,720)
Impairment loss recognised in respect of goodwill	-	(161,428)	-	(161,428)
Gain on disposal of environmental protection operation	16,049	-	16,049	-
	13,783	(167,640)	12,482	(168,148)

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

	From 1 July 2010 to 13 September 2010 HK\$'000 (Unaudited)	Three months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)	From 1 April 2010 to 13 September 2010 HK\$'000 (Unaudited)	Six months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)
Revenue	3,873	35,280	14,016	57,519
Cost of sales	(5,114)	(34,312)	(13,424)	(53,512)
Selling expenses	-	(4,061)	-	(4,470)
Administrative expenses	(1,225)	(4,064)	(4,644)	(6,690)
Finance costs	-	(590)	-	(1,599)
Impairment loss recognised in respect of goodwill	-	(161,428)	-	(161,428)
Other operating expenses	-	(2,336)	-	(2,336)
Other revenue	200	(504)	485	4,217
Gain on disposal of subsidiary	16,049	4,218	16,049	-
Profit/(loss) before tax	13,783	(167,797)	12,482	(168,299)
Income tax expense	-	157	-	151
Profit/(loss) for the period	13,783	(167,640)	12,482	(168,148)

5. DISPOSAL OF SUBSIDIARIES (Cont'd)

(a) (Cont'd)

Loss for the period from discontinued operation includes the following:

	From 1 July 2010 to 13 September 2010 HK\$'000 (Unaudited)	Three months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)	From 1 April 2010 to 13 September 2010 HK\$'000 (Unaudited)	Six months ended 30 September 2009 HK\$'000 (Unaudited) (Restated)
Depreciation and amortisation	83	432	208	864
Allowance for doubtful debts	-	2,193	-	2,193
Written off on property, plant and equipment	-	1,454	-	1,454

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

	HK\$'000
Net assets disposed of:	
Property, plant and equipment	1,314
Inventories	2,953
Trade receivables	6,306
Other receivables	10,568
Bank balances and cash	9,115
Trade payables	(3,301)
Other payables	(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
	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 100% 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	(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	–
Net cash outflow arising on disposal:	
Cash consideration received	–

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

6. PROFIT (LOSS) FOR THE PERIOD

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

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited) (Restated)
Continuing operations:				
Cost of sales	79,120	53,217	105,037	105,650
Staff costs (including director's emoluments)	7,310	6,828	14,973	13,960
Depreciation and amortisation	1,775	1,784	2,746	4,568
Payments under operating leases in respect of land and buildings	1,873	1,700	3,412	3,742
Share based payment	15,722	26,357	15,722	26,357

7. DIVIDENDS

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

8. EARNING (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) 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	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Earnings				
Earnings for the purpose of basic earnings and diluted earnings (loss) per share	36,911	(133,314)	40,745	(158,287)
<hr/>				
Number of shares	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,749,806	1,688,278	1,734,585	1,574,070
Effect of dilutive potential ordinary shares:				
Share options	18,827	–	56,498	–
<hr/>				
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,768,633	1,688,278	1,791,083	1,574,070
<hr/>				

The denominator for the purposes of calculating basic loss per share for the 3 months ended 30 September 2009 and six months ended 30 September 2009 have been adjusted to reflect the consolidation of shares in February 2010 on the basis of four shares consolidated into one share.

8. EARNING (LOSS) PER SHARE (Cont'd)**From continuing operations**

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Profit (loss) for the period attributable to owners of the company	36,911	(133,314)	40,745	(158,287)
Less: (Profit) loss for the period from discontinued operation	(13,783)	167,640	(12,482)	168,148
<hr/>				
Earnings for the purposes of basic and diluted earnings per share from continuing operations	23,128	34,326	28,263	9,861

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

From discontinued operation

Basic earnings (loss) per share from discontinued operation is HK\$0.72 cents per share (six months ended 30 September 2009: HK\$(10.69) cents per share) based on the profit (loss) for the period from the discontinued operation of HK\$12,482,000 (six months ended 30 September 2009: loss for the period of HK\$168,148,000) and the denominators detailed above for basic earnings (loss) per share.

The computation of diluted loss per share of the Group from continuing and discontinued operations for each of the three months and six months ended 30 September 2009 does not assume the conversion of the Group's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share from continuing and discontinued operations.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$5,244,000 (2009: HK\$5,431,000) on acquisition of property, plant and equipment.

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 on the invoice date at the end of the reporting date.

	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 90 days	26,245	24,218
91 – 180 days	10,127	11,452
181 – 365 days	2,059	32,797
Over 365 days	24,764	52
	63,195	68,519

11. TRADE PAYABLES

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

	30 September	31 March
	2010	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 90 days	35,528	14,001
91 – 180 days	11,805	20,318
181 – 365 days	24,815	9,318
Over 365 days	23,972	40,476
	96,120	84,113

12. CONVERTIBLE NOTES

On 31 March 2008, the Company issued zero coupon convertible notes in the principal amount of HK\$204,000,000 (“HYY Convertible Notes”) to third parties as part of consideration for the acquisition of the entire equity interest in Beijing Enterprises Ever Source Limited. The HYY Convertible Notes will be matured on 30 March 2013. The note holder may convert the whole or part of the HYY Convertible Notes into shares of the Company at an initial conversion price of HK\$0.3 per share and such conversion price has been adjusted to HK\$1.2 per share effective from 1 February 2010 as a consequence of the Company’s share consolidation. The effective interest rate of the liabilities component of HYY Convertible Notes is approximately 11.936%.

The convertible notes contain two components, liabilities and equity elements. The fair value of the liability component included in non-current liabilities was calculated using discounted cash flow method with reference to a market interest rate for an equivalent non-convertible note. The remaining balance representing the equity component is included in shareholders’ equity named as convertible notes reserves.

	Liability component	Equity component
	<i>HK\$’000</i>	<i>HK\$’000</i>
At 1 October 2009	137,701	87,910
Imputed interest charged for the period	8,218	–
At 31 March 2010	145,919	87,910
Imputed interest charged for the period	7,488	–
Upon cancelation (Note 17(a))	(43,454)	(24,900)
Conversion during the period (Note 17(c))	(77,718)	(44,537)
Waive from a substantial shareholder (Note 17(b))	(32,235)	(18,473)
At 30 September 2010	–	–

13. SHARE CAPITAL

	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
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Authorised:

4,000,000,000 Ordinary shares of US\$0.04 each	1,248,000	1,248,000
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Issued and fully paid:	Number of shares '000	Share capital HK\$'000
At 1 April 2010	1,696,778	529,387
Conversion of convertible notes (Note 17(c))	86,125	26,871
Exercise of share options (Note 15)	45,825	14,298
At 30 September 2010	1,828,728	570,556

14. COMMITMENT**i) Operating lease commitments**

The Group leases certain of its office properties, production plants and staff quarters under operating lease arrangements. Leases are negotiated for a term ranging from one to ten years. The Group does not have option to purchase the leased asset at the expiry of the lease period.

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 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Within one year	6,467	7,174
In the second year to fifth year inclusive	16,316	20,070
Over fifth years	25,511	28,584
	48,294	55,828

14. COMMITMENT (Cont'd)**ii) Capital commitments**

	30 September 2010 HK\$'000 (Unaudited)	31 March 2010 HK\$'000 (Audited)
Contracted expenditure contracted but not provided in the consolidated financial statements in respect of:		
– Capital injection in an associate	24,257	23,851
– Acquisition of property, plant and equipment	–	1,170
– Acquisition of land use rights	162,867	160,139
	187,124	185,160

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 2010	137,525,000
Granted during the period (Note i)	172,992,000
Exercised during the period (Note ii)	(45,825,000)
	264,692,000

Note:

- i. In the current period, share options were granted on 9 September 2010 with an exercise price of HK\$0.426 per share. The fair values of the options determined at the date of grant using the Binominal model was approximately HK\$36,360,000. An amount of approximately HK\$15,722,000 in respect of the portion vested during the current period has been charged to profit or loss for the period.
- ii. The weighted average closing price of the Company's shares immediately before the date on which the options were exercised was HK\$0.65.

The closing price of the Company's shares immediately before 9 September 2010, the date of grant, was HK\$0.42.

16. RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into the following transactions:

	Three months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Operating lease payments paid to a non-controlling shareholder	588	664	1,177	1,328
Consideration of disposal of property, plant and equipment to a non-controlling shareholder	-	23,971	-	23,971
Consideration of disposal of property, plant and equipment to associates	-	17,267	-	17,267
Consideration received from disposal of a subsidiary to an associate	-	12,498	-	12,498
	588	54,400	1,177	55,064

16. 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	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Short-term benefits	1,869	1,869	3,738	3,738
Retirement benefits				
scheme contributions	9	9	18	18
Share-based payment expenses	10,279	–	10,279	–
	12,157	1,878	14,035	3,756

17. MAJOR NON-CASH TRANSACTIONS

- (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 \$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 2010, 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\$0.04 each in the Company held and the capacity			Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives	
Ms. Chan Wai Kay, Katherine (Note 1)	Beneficial owner Interest of spouse	– 10,074,000	– 0.55%	30,750,000 –	40,824,000 2.23%
Mr. Wu Shu Min (Note 2)	Beneficial owner	36,505,750	2.00%	28,600,000	65,105,750 3.56%
Mr. Xu Shengheng (Note 3)	Beneficial owner Interest of spouse	373,615,000 702,000	20.43% 0.04%	25,350,000 –	399,667,000 21.85%
Ms. Chan Man Kuen Laura (Note 4)	Beneficial owner	1,250,000	0.07%	1,500,000	2,750,000 0.15%

Notes:

1. Ms. Chan Wai Kay Ketherine (“Ms. Chan”) is interested in 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 and 30,750,000 underlying shares issuable upon the exercise of the share options.
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”) holds 373,615,000 Shares and 25,350,000 Shares issuable pursuant to exercise of share options of the Company. 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 373,615,000 Shares, 702,000 Shares in which Ms. Luk is interested and 25,350,000 underlying shares issuable upon the exercise of the share options of the Company, details of such share options can be referred to part (b) of this section.
4. Ms. Chan Man Kuen Laura holds 1,250,000 Shares and 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

(B) LONG POSITION UNDER EQUITY DERIVATIVES

(i) *The Previous Scheme*

On 22 November 2001, the Company conditionally adopted a share option scheme (the “Previous Scheme”) for a period of ten years from the date on which the Previous Scheme was adopted. The Previous Scheme became unconditional upon the listing of the Company’s shares on the GEM of the Stock Exchange on 30 November 2001. Under the Previous 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 Previous Scheme. As at 30 September 2010, 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 2010
Ms. Chan Wai Kay Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.8600	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.3120	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

(ii) *The New Plan*

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "New Plan") for a period of ten years from the date on which the New Plan became unconditional. On 7 August 2010, the New Plan became unconditional and effective when The Stock Exchange of Hong Kong Ltd. granting the listing of, and permission to deal in, the shares of US\$0.04 each in the capital of the Company ("Shares") which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the options that may be granted under the New Plan. 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 2010, 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 2010
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Wu Shu Min	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Soo Kim Fui Jeffrey	9 September 2010	9 September 2010 to 8 September 2020	0.426	6,000,000
Mr. Fu Hui Zhong	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
Ms. Chan Man Kuen Laura	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Chow Wan Hoi Paul	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at 30 September 2010, 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 2010, 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
China Standard Limited (Note 1)	Beneficial owner	125,000,000	6.84%	–	125,000,000	6.84%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	131,429,000	7.19%	–	131,429,000	7.19%
Grand Concord Group Ltd. (Note 2)	Beneficial owner/ Interest of controlled corporation	131,429,000	7.19%	–	131,429,000	7.19%
Luk Hoi Man (Note 3)	Beneficial owner Interest of spouse	702,000 373,615,000	0.04% 20.43%	– 25,350,000	399,667,000	21.85%

Notes:

1. These are the consideration shares issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
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.
3. Ms. Luk Hoi Man ("Ms. Luk"), the spouse of Mr. Xu Shengheng ("Mr. Xu"), holds 702,000 Shares. Mr. Xu holds 373,615,000 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 702,000 Shares, 373,615,000 Shares in which Mr. Xu is interested and 25,350,000 underlying shares issuable upon the exercise of the share options of the Company.

Save as disclosed above, as at 30 September 2010, 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 2010, options to subscribe for an aggregate of 264,692,000 shares were outstanding (including the directors of the Company as disclosed above). Details of which as at 30 September 2010 were as follows:

Date of grant of share options	As at 1 April 2010	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 September 2010	Vesting period of share options	Exercise period of share options	Exercise price per share HK\$
1 March 2002	75,000	-	-	-	75,000	-	1 March 2002 to 21 December 2011	1.9000
7 March 2002	2,500,000	-	-	-	2,500,000	-	7 March 2002 to 21 December 2011	1.8600
5 June 2003	750,000	-	-	-	750,000	-	5 June 2003 to 21 December 2011	0.3120
29 May 2007	2,750,000	-	-	-	2,750,000	-	29 May 2007 to 21 December 2011	0.8560
23 June 2009	131,450,000	-	45,825,000	-	85,625,000	-	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
	<u>137,525,000</u>	<u>172,992,000</u>	<u>45,825,000</u>	<u>-</u>	<u>264,692,000</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 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, 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, 12 November 2010