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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Ground Source Energy Limited**, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee, or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CGS**

**CHINA GROUND SOURCE ENERGY LIMITED**

**中國地能有限公司**

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

(Stock Code: 8128)

**MAJOR DISPOSAL  
AND  
PROPOSED CAPITAL REORGANISATION**

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A notice convening an extraordinary general meeting (the “EGM”) of the Company to be held at Room 1303 York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 31 August 2009 at 10:30 a.m. is set out on pages 25 to 27 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

7 August 2009

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## GEM CHARACTERISTICS

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**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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## EXPECTED TIMETABLE

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*Set out below is an indicative timetable for the Capital Reorganisation. The timetable is subject to the results of the EGM and other changes. The Company will notify the Shareholders of any significant changes to the expected timetable by way of announcement(s) as and when appropriate.*

Despatch of circular and notice and EGM .....	Friday, 7 August 2009
Latest time for lodging forms of proxy for EGM .....	10:30 a.m. on Saturday, 29 August 2009
Date of EGM .....	10:30 a.m. on Monday, 31 August 2009
Announcement of results of EGM. ....	Monday, 31 August 2009

*The following events are conditional on the results of the EGM. The dates are therefore tentative.*

Effective date for the Share Consolidation .....	Tuesday, 1 September 2009
Original counter for trading in Existing Shares in board lots of 8,000 Existing Shares to be closed. ....	9:30 a.m., Tuesday, 1 September 2009
Temporary counter for trading in Consolidated Shares in the board lots of 2,000 Consolidated Shares (in form of existing share certificates) to be opened. ....	9:30 a.m., Tuesday, 1 September 2009
Dealing in Consolidated Shares commences .....	9:30 a.m., Tuesday, 1 September 2009
First day for free exchange of existing share certificates for new share certificates for the Consolidated Shares commences .....	Tuesday, 1 September 2009
Designated broker starts to stand in the market to provide matching service for the sale and purchase of odd lots of Consolidated Shares .....	9:30 a.m., Tuesday, 15 September 2009
Original counter for trading in Consolidated Shares (in the board lots of 8,000 Consolidated Shares) to be re-opened .....	9:30 a.m., Tuesday, 15 September 2009

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## EXPECTED TIMETABLE

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Parallel trading in Consolidated Shares  
(in form of new and existing certificates) begins . . . . . 9:30 a.m.,  
Tuesday, 15 September 2009

Temporary counter for trading in Consolidated Shares  
in the board lots of 2,000 Consolidated Shares  
(in form of existing share certificates) to be closed. . . . . 4:00 p.m.,  
Tuesday, 6 October 2009

Parallel trading in Consolidated Shares  
(in form of new and existing certificate) ends . . . . . 4:00 p.m.,  
Tuesday, 6 October 2009

Designated broker ceases to stand in the market to  
provide matching service for the sale and  
purchase of odd lots of Consolidated Shares . . . . . 4:10 p.m.,  
Tuesday, 6 October 2009

Last day of free exchange of existing  
share certificates for new share certificates . . . . . Thursday, 8 October 2009

*The following events are conditional on the results of the EGM and the approval from the Court. The dates are therefore tentative.*

Effective date for the Capital Reduction  
and the Subdivision . . . . . Monday, 1 February 2010

First day for free exchange of then share  
certificates for new share certificates for  
New Shares (one day after the effective  
date due to time difference between Hong Kong  
and the Cayman Islands). . . . . Tuesday, 2 February 2010

Last day for free exchange of the then share  
certificates for new share certificates for New Shares . . . . . Tuesday, 2 March 2010

All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the EGM and the relevant Court hearings and are therefore tentative only.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2007 Convertible Notes”	the zero coupon convertible notes due 2012 issued by the Company on 7 November 2007 in the aggregate principal amount of HK\$160,000,000, details of which were disclosed in the Company’s circular dated 3 October 2007
“2008 Convertible Notes”	the zero coupon convertible notes due 2013 issued by the Company on 31 March 2008 in the aggregate principal amount of HK\$204,000,000, details of which were disclosed in the Company’s circular dated 29 February 2008
“Agreement”	the conditional sale and purchase agreement dated 30 June 2009 entered into between the Vendor and the Purchaser for the sale and purchase of the Sale Share and the Debt
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than Saturday, Sunday, public holidays and days on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general banking business
“Capital Reduction”	the proposed reduction of the nominal value of each issued Consolidated Share from US\$0.04 each to US\$0.01 each
“Capital Reorganisation”	the proposed capital reorganisation which involves the Share Consolidation, the Capital Reduction and the Subdivision
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM
“Companies Law”	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Completion”	completion of the Agreement
“Completion Date”	the date on which Completion takes place

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## DEFINITIONS

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“Consideration”	the total consideration of the Disposal in an amount of HK\$2,000,000 as agreed by the Vendor and the Purchaser under the Agreement
“Consolidated Shares”	ordinary shares of US\$0.04 each in the share capital of the Company resulting from the Share Consolidation but prior to the Capital Reduction
“Convertible Notes”	the 2007 Convertible Notes and the 2008 Convertible Notes
“Court”	the Grand Court of the Cayman Islands
“Debt”	all obligations, liabilities and debts owing or incurred by FFL to the Vendor as at the Completion Date whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Share and the Debt by the Vendor pursuant to the Agreement
“EGM”	the extraordinary general meeting of the Company to be held at Room 1303 York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 31 August 2009 at 10:30 a.m. for the purpose of approving, inter alia, the Disposal and the Capital Reorganisation
“Ever Sincere”	Ever Sincere Investment Limited
“Existing Shares”	existing ordinary share(s) of US\$0.01 each in the capital of the Company
“FFL”	Future Frontier Limited, an indirectly wholly-owned subsidiary of the Company
“FFL Group”	FFL and its subsidiaries
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the board of directors of the Stock Exchange with responsibility for GEM

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“New Shares”	ordinary share(s) of US\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“JV”	Wujiang Shengxin Optoelectronics Technology Co., Ltd., as to 51% of its equity interests is owned by FFL
“Latest Practicable Date”	5 August 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the inclusion in this circular
“PRC”	The People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Taiwan and Macau Special Administrative Region
“Purchaser”	Zhang Jie
“Sale Share”	one share in FFL, which represents the entire issued share capital of FFL held by the Vendor and to be sold to the Purchaser pursuant to the Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the proposed consolidation of every 4 Existing Shares in the issued and unissued share capital of the Company into one Consolidated Share
“Share Option(s)”	the outstanding share options granted by the Company pursuant to the share option scheme adopted by the Company on 22 November 2001
“Shares”	the Existing Shares prior to the Capital Reorganisation becoming effective, the Consolidated Shares after the Share Consolidation becoming effective but before the Capital Reduction becoming effective, or the New Shares after the Capital Reorganisation becoming effective (as the case may be)

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## DEFINITIONS

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“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivision”	the subdivision of each authorised but unissued Consolidated Shares into 4 New Shares
“Vendor”	II Networks International Limited, a wholly-owned subsidiary of the Company
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

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LETTER FROM THE BOARD

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**CGS**

**CHINA GROUND SOURCE ENERGY LIMITED**

**中國地能有限公司**

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

(Stock Code: 8128)

*Executive Directors:*

Ms. Chan Wai Kay, Katherine

Mr. Xu Shengheng

Mr. Wu Shu Min

Mr. Jeffrey Soo Kim Fui

*Registered office:*

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P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

*Non-executive Director:*

Mr. Fu Hui Zhong

*Head office and principal place of  
business in Hong Kong:*

Room 1303, York House

The Landmark

15 Queen's Road Central

Central

Hong Kong

*Independent non-executive Directors:*

Ms. Laura Chan Man Kuen

Mr. Jia Wenzeng

Mr. Paul Chow Wan Hoi

7 August 2009

*To the Shareholders, and for information only,  
the holders of the Share Options  
and Convertible Notes*

Dear Sir or Madam,

**MAJOR DISPOSAL  
AND  
PROPOSED CAPITAL REORGANISATION**

**INTRODUCTION**

The Board announced on 7 July 2009 that on 30 June 2009, the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Agreement, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the Sale Share, being the entire issued share capital of FFL, and the Debt for an aggregate Consideration of HK\$2,000,000.

The Board also announced on 4 August 2009 that the Board proposed to put forward to the Shareholders a proposal regarding the Capital Reorganisation.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, further details of the Agreement and the transactions contemplated thereunder, financial and other information on the Company, and further details of the Capital Reorganisation, together with a notice to convene the EGM.

### THE AGREEMENT

**Date** 30 June 2009

**Parties** (1) Vendor : II Networks International Limited, a wholly-owned subsidiary of the Company.

(2) Purchaser : Zhang Jie.

To the best knowledge, information and belief of the Directors and having made all reasonable enquiry, the Purchaser is a third party independent of the Company and its connected persons (as defined in the GEM Listing Rules).

### Assets to be disposed

Pursuant to the Agreement, the Vendor conditionally agreed to sell to the Purchaser and the Purchaser conditionally agreed to acquire the Sale Share and the Debt from the Vendor. FFL will cease to be a subsidiary of the Group after Completion.

### Consideration

The Consideration for the disposal of the Sale Share and the Debt by the Company through the Vendor is HK\$2,000,000. Since the Company anticipated that, save as the Debt, FFL will not incur further liabilities to the Vendor before Completion, there will not be any adjustment to the Consideration. The Consideration shall be settled in cash in the following manner:-

- (a) as to HK\$500,000 to be paid to the Vendor as deposit and part payment of the Consideration within 5 days after the date of the Agreement; and
- (b) as to HK\$1,500,000 to be paid to the Vendor upon Completion.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser taking into account the Debt of approximately HK\$9,862,000 and the unaudited equity attributable to the equity holders of FFL of approximately HK\$(8,648,000) as at 30 April 2009. The Directors consider the Consideration and the terms of the Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Conditions of the Agreement**

Completion of the Agreement is conditional upon the Agreement and the transactions contemplated under the Agreement having been approved by the Shareholders in a general meeting. If the condition mentioned above has not been satisfied at or before 5:00 p.m. on 31 August 2009 or such other date as the Purchaser and the Vendor may agree, the Agreement shall cease and determine, whereupon the Vendor shall forthwith refund the deposit, without interest, to the Purchaser and none of the parties thereto shall have any other obligations and liabilities thereunder nor shall take any action to claim for damages or to enforce specific performance or any other rights and remedies.

### **Completion**

Completion shall take place within 7 Business Days after the condition mentioned above has been fulfilled. Upon Completion, FFL will cease to be a subsidiary of the Group and its results will cease to be consolidated into the consolidated account of the Group.

### **Warranties and future covenant**

The Vendor has provided various warranties in respect of the Sale Share and the Debt and the conditions of the Vendor to the Purchaser. The liability of the Vendor in respect of breach of such warranties shall not exceed HK\$1,000,000.

### **INFORMATION ON THE GROUP**

The Vendor is a wholly-owned subsidiary of the Company. The Group is principally engaged in environmental protection and new energy businesses.

### **INFORMATION ON FFL AND ITS SUBSIDIARIES**

FFL is an investment holding company established in the British Virgin Islands on 2 August 2002 and is an indirect wholly-owned subsidiary of the Company. The JV is a joint venture established in the PRC on 8 February 2001. As at the Latest Practicable Date, the JV was owned as to 51% by FFL and 49% by 吳江市信誠光電線纜廠 (Xincheng Optical Cables Factory). The JV was principally engaged in manufacturing and sale of communication cables and optical cables. Other than its investment in the JV, FFL had no other investments or business activities.

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## LETTER FROM THE BOARD

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A summary of the audited financial information of FFL Group for the year ended 30 September 2008 and 30 September 2007 and the unaudited financial information of FFL Group for the seven months ended 30 April 2009 prepared in accordance with the general accepted accounting principles in Hong Kong is as follows:

	<b>For the seven months ended 30 April 2009 HK\$'000</b>	<b>For the year ended 30 September 2008 HK\$'000</b>	<b>For the year ended 30 September 2007 HK\$'000</b>
Turnover	45,645	95,854	106,875
Net Profit/(loss) (before taxation and extraordinary items)	(2,129)	(5,063)	2,527
Net Profit/(loss) (after taxation and extraordinary items)	(2,129)	(5,063)	1,373
	<b>As at 30 April 2009 HK\$'000</b>	<b>As at 30 September 2008 HK\$'000</b>	<b>As at 30 September 2007 HK\$'000</b>
Total Assets	71,480	72,486	73,689
Total Liabilities	67,929	66,778	62,591
Net Assets before minority interest	3,551	5,708	11,098
Minority interests	12,199	13,255	15,897
	<i>(Note 1)</i>		
Equity attributable to equity holder of FFL	(8,648)	(7,547)	(4,799)
	<i>(Note 2)</i>		

*Note:*

1. This minority interests represent interest of the minority shareholder, Xincheng Optical Cables Factory, in the net assets of the JV and consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the business combination.
2. Equity attributable to equity holder of FFL as at 30 April 2009 represents accumulated losses incurred by the FFL Group, net of exchange reserve and revaluation reserve.

The amount of obligations, liabilities and debts owed or incurred by FFL to the Vendor as at 30 April 2009 was approximately HK\$9,862,000.

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## LETTER FROM THE BOARD

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### FINANCIAL EFFECT OF THE DISPOSAL

It is estimated that as a result of the Disposal, the Group will record a gain of approximately HK\$786,000 with reference to the unaudited consolidated management account of FFL Group as at 30 April 2009.

Upon completion, the financial results of FFL Group will no longer be consolidated into the Group's financial statements. It is expected that the earnings of the Group would be enhanced as a result of de-consolidation of the results of FFL Group, which is loss-marking entities of the Group. Accordingly, it is expected that the total assets of the Group will be decreased by approximately HK\$71,480,000; the total liabilities will be decreased by approximately HK\$67,929,000 and the minority interests will decrease by approximately HK\$12,199,000 respectively as a result of the Disposal, based on the unaudited consolidated management account of FFL Group as at 30 April 2009.

### REASONS FOR THE DISPOSAL

As disclosed in the annual report of the Company for the year ended 30 September 2008, the Company intends to focus on environmental protection and shallow ground energy utilization business and to gradually withdraw from the telecommunication network solutions business. As the business in the transmission sector is deteriorating due to the intensifying competition in the market, the Directors consider that the Disposal provides an opportunity for the Company to dispose of a weakening business and to streamline the businesses of the Group and is in line with the Company's business strategy. The Directors believe that the terms of the Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

### USE OF PROCEEDS

It is the intention of the Group that the proceeds from the Disposal will be used entirely for general working capital.

### LISTING RULES REQUIREMENT

As the applicable percentage ratio for the Disposal under the GEM Listing Rules is more than 25% but less than 75%, the Disposal constitutes a major disposal for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to approval by Shareholders at the EGM by poll. Any Shareholder with a material interest in the Disposal and his associates will abstain from voting on the resolution approving the Disposal. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholder had material interests in the Disposal and no Shareholder would abstain from voting at the EGM on the resolution approving the Disposal.

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## LETTER FROM THE BOARD

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### PROPOSED CAPITAL REORGANISATION

The Board also proposed to put forward to the Shareholders the following proposal that:

- (1) Share Consolidation – every 4 Existing Shares in the issued and unissued share capital of the Company be consolidated into one Consolidated Share;
- (2) Capital Reduction – the par value of all the issued Consolidated Shares be reduced from US\$0.04 each to US\$0.01 each by cancelling the paid-up capital to the extent of US\$0.03 per issued Consolidated Shares by way of a reduction of capital;
- (3) Subdivision – every authorised but unissued Consolidated Share be subdivided into 4 New Shares with a par value of US\$0.01 each; and
- (4) the credit arising from the reduction of capital be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

### PROPOSED SHARE CONSOLIDATION

As at the Latest Practicable Date, the authorised share capital of the Company was US\$80,000,000 comprising 8,000,000,000 Existing Shares with a par value of US\$0.01 each, of which 6,753,112,470 Existing Shares were in issue.

The Board proposes to effect the Share Consolidation pursuant to which every 4 issued and unissued Existing Shares will be consolidated into one Consolidated Share with a par value of US\$0.04 each. Any fractional entitlement of Consolidated Shares will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company has appointed Pacific Foundation Securities Limited to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares, during the period from 15 September 2009 to 6 October 2009 (both dates inclusive). Holders of the Consolidated Shares in odd lots who wish to take advantage of this matching facility either to dispose of their odd lots of Consolidated Shares or to top up to board lots of 2,000 Consolidated Shares, may contact Mr. Sam Ng of Pacific Foundation Securities Limited at 11/F, New World Tower Two, 16-18 Queen's Road Central, Hong Kong at telephone number 25303338 during office hours. The Shareholders should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

Upon the Share Consolidation becoming effective, the authorised share capital of the Company will be US\$80,000,000 comprising 2,000,000,000 Consolidated Shares with a par value of US\$0.04 each, of which 1,688,278,117 Consolidated Shares will be in issue. All Consolidated Shares will rank pari passu in all respects with each other.

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## LETTER FROM THE BOARD

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### Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following conditions:

- (i) the passing by the Shareholders of an ordinary resolution to approve the Share Consolidation at the EGM; and
- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective.

### Possible Adjustment to the Convertible Notes and the Share Options

As at the Latest Practicable Date, the Company had Convertible Notes in the aggregate principal amount of HK\$364,000,000 entitling the holder thereof to subscribe for up to an aggregate of 1,080,000,000 Existing Shares, and outstanding Share Options entitling the holder thereof to subscribe for up to an aggregate of 588,700,000 Existing Shares.

The Share Consolidation may cause adjustments to (i) the conversion price and the number of Consolidated Shares to be issued pursuant to the terms and conditions of the Convertible Notes; and (ii) the subscription price and the number of Consolidated Shares to be issued under the Share Options. The Company will notify the holders of the Convertible Notes and the Share Options regarding adjustments to be made (if any) pursuant to the terms of the Convertible Notes and the Share Options (as and when appropriate).

Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for granting the listing of and permission to deal in the Consolidated Shares.

Save for the Convertible Notes and the Share Options, there were no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convertible or exchangeable into Existing Shares as at the Latest practicable Date.

### Reasons for the Share Consolidation

As set out in the announcement of the Company dated 29 May 2009, pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01, the Stock Exchange reserves the right to require such issuer either to change the trading method or to proceed with a consolidation of its securities. With reference to the recent trading price of the Existing Shares, the Board proposes to implement the Share Consolidation. It is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Consolidated Shares on the Stock Exchange.

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## LETTER FROM THE BOARD

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### **Free Exchange of Share Certificates**

Should the Share Consolidation become effective, Shareholders may, during the period from 1 September 2009 to 8 October 2009 (the dates are tentative), submit certificates for Existing Shares in grey colour to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange, at the expense of the Company, for new share certificates in green colour for Consolidated Shares. Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for Consolidated Shares. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time at the expense of the Shareholders.

### **PROPOSED CAPITAL REDUCTION AND SUBDIVISION**

Subject to the Share Consolidation becoming effective, the Board proposes to effect the Capital Reduction pursuant to which the par value of each of the issued Consolidated Shares be reduced from US\$0.04 each by cancelling the paid up capital to the extent of US\$0.03 per issued Consolidated Share so that each issued Consolidated Share shall become one fully paid up New Share in the capital of the Company and any liability of the holders of such shares to make any further contributions to the capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital hereby cancelled be made available for issuance of New Shares of the Company so that the authorised capital of the Company of US\$80,000,000 remains unchanged.

Immediately following and subject to the Capital Reduction becoming effective, each authorised but unissued Consolidated Share will also be subdivided into 4 New Shares with a par value of US\$0.01 each.

On the basis of the existing issued share capital of the Company and assuming no further issue of new Existing Shares from the Latest Practicable Date up to the date on which the Share Consolidation becoming effective and assuming no further issue of Consolidated Shares after the Share Consolidation becoming effective and up to the date on which the Capital Reduction and the Subdivision becoming effective, the authorised share capital of the Company will be US\$80,000,000 divided into 8,000,000,000 New Shares with a par value of US\$0.01 each, the issued share capital of the Company will be US\$16,882,781.17 divided into 1,688,278,117 New Shares with a par value of US\$0.01 each. All New Shares will rank *pari passu* in all respects with each other.

### **Conditions of the Capital Reduction and the Subdivision**

The Capital Reduction and the Subdivision are conditional upon the following conditions:-

- (i) the Share Consolidation becoming effective;
- (ii) the passing by the Shareholders of a special resolution to approve the Capital Reduction and the Subdivision at the EGM;

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## LETTER FROM THE BOARD

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- (iii) the confirmation by the Court and the registration by the Registrar of Companies in the Cayman Islands of an official copy of the Court order and the minutes containing the particulars required under the Companies Law;
- (iv) compliance with any conditions imposed by the Court; and
- (v) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation becoming effective.

Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for granting the listing of and permission to deal in the New Shares.

### **Effect of the Capital Reduction**

As at the Latest Practicable Date, the share capital of the Company consists of 6,753,112,470 Existing Shares in issue and the aggregate nominal value of the issued share capital of the Company is approximately US\$67,531,124.70. On the basis of 6,753,112,470 Existing Shares in issue and assuming that no further Existing Shares are issued from the date hereof until the effective date of the Capital Reorganisation, a credit of approximately US\$50,648,343.53 will arise in the books of the Company as a result of the Capital Reduction.

As at the Latest Practicable Date, the Company has Convertible Notes in the aggregate principal amount of HK\$364,000,000. Assuming there is an immediate exercise in full of the conversion rights attaching to the 2007 Convertible Notes in the aggregate principal amount of HK\$160,000,000 at the conversion price of HK\$0.40 per Existing Share by all holders of the 2007 Convertible Notes, an additional 400,000,000 new Existing Shares would be issued by the Company pursuant to the terms and conditions of the Convertible Notes (assuming no adjustment has been made) and an additional credit of US\$3,000,000 would arise in the books of the Company as a result of the Capital Reduction. Assuming there is an immediate exercise in full of the conversion rights attaching to the 2008 Convertible Notes in the aggregate principal amount of HK\$204,000,000 at the conversion price of HK\$0.30 per Existing Share by all holders of the 2008 Convertible Notes, an additional 680,000,000 new Existing Shares would be issued by the Company pursuant to the terms and conditions of the Convertible Notes (assuming no adjustment has been made) and an additional credit of US\$5,100,000 would arise in the books of the Company as a result of the Capital Reduction.

As at the Latest Practicable Date, the Company has 588,700,000 outstanding Share Options. Assuming there is an immediate exercise in full of subscription rights attaching to the Share Options by the holders thereof, an additional 588,700,000 new Existing Shares would be issued by the Company and an additional credit of US\$4,415,250 would arise in the books of the Company as a result of the Capital Reduction.

All the total credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company. The utilisation of the account will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

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## LETTER FROM THE BOARD

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### **Reasons for the Capital Reduction and Subdivision**

Assuming the Capital Reorganisation is implemented, the total credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company. The utilisation of the account will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company. The Subdivision is necessary so that the par value of all unissued New Shares will be equal to that of the issued New Shares. Based on the unaudited accumulated losses as at 31 March 2009, the unaudited accumulated losses of the Company will be fully eliminated upon the Capital Reorganisation becoming effective. The Directors believe that implementation of the Capital Reorganisation will therefore bring forward the date upon which the Company is in a position to declare dividends.

### **Free Exchange of Certificates For New Shares**

Subject to the Capital Reduction becoming effective, Shareholders may, during the period from 2 February 2010 to 2 March 2010 (the dates are tentative) submit certificates in green colour for the then Consolidated Shares to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong, for exchange, at the expense of the Company, for new share certificates in blue colour for New Shares. Thereafter, certificates for the then Consolidated Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for New Shares. Nevertheless, certificates for the then Consolidated Shares will continue to be good evidence of legal title and may be exchanged for certificates for New Shares at any time at the expense of the Shareholders.

### **Effect of The Capital Reorganisation**

Implementation of the Capital Reorganisation would not, of itself, alter the underlying assets, liabilities, businesses, management or financial position of the Group or the rights of the Shareholders, except for payment of the related expenses and any fractional Consolidated Shares to which Shareholders may be entitled. After the Capital Reorganisation becomes effective, the board lot size of the shares in the Company for trading on the Stock Exchange would remain as 8,000. The New Shares will rank pari passu in all respects with each other.

### **Timing**

The Capital Reorganisation is subject to the Court's approval. The Capital Reorganisation will become effective after the Court's approval and compliance with the conditions (if any) imposed by the Court. As the Court hearing dates have yet to be fixed, the effective date of the Capital Reorganisation as set out in the timetable above is tentative only.

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## LETTER FROM THE BOARD

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### GENERAL

None of the securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no such listing or permission to deal in is being or is proposed to be sought subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### EGM

A notice convening the EGM to be held at Room 1303 York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong on 31 August 2009 at 10:30 a.m. is set out on pages 25 to 27 of this circular.

A form of proxy for use at the EGM or at any adjournment thereof is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### RECOMMENDATION

The Board considers that the terms of the Disposal are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Board further considers that the Capital Reorganisation is in the interests of the Company and the Shareholders as a Whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary and special resolutions as set out in the notice of the EGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of  
**China Ground Source Energy Limited**  
**Chan Wai Kay, Katherine**  
*Chairman*

## 1. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the six months ended 31 March 2009 (the “**Review Period**”), the turnover of the Group increased by 145% to HK\$163,500,000 from approximately HK\$66,800,000 of last year. The increase was mainly attributable to the consolidation of the results of shallow ground energy utilisation business. However, 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 Review Period, the Group’s consolidated results attributable to Shareholders turned from a profit of approximately HK\$1,300,000 for the corresponding period of the previous year to a loss of approximately HK\$14,500,000 for the Review Period.

Following the acquisitions of environmental protection and shallow ground energy utilisation businesses, the Company switched its business portfolio from telecommunication sector to environmental protection and new energy sector. The Company will therefore be focusing on the business development in these sectors and striving for uplift the profitability of the Company and increasing the value for the Shareholders.

## 2. INDEBTEDNESS STATEMENT

### **Borrowings and debts**

As at the close of business on 30 June 2009, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement of indebtedness, the Group had outstanding borrowings of approximately HK\$407,238,000 which comprised (i) bank borrowings of approximately HK\$22,644,000 which were secured by the leasehold land, buildings, plant and machineries and corporate guarantee from a related party; (ii) an unsecured other loans of approximately HK\$13,435,000; (iii) liability component of the unsecured convertible notes of approximately HK\$250,788,000 with principal amount of HK\$364,000,000; and (iv) amounts due to minority shareholders of approximately HK\$7,159,000.

### **Contingent liabilities**

As at 30 June 2009, the Group had no significant contingent liabilities.

### **Disclaimer**

Save as referred to as above and apart from intra-group liabilities and normal trade payables, the Group did not have, as at 30 June 2009, any debt securities issued and outstanding or authorised or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees, convertible bonds or other material contingent liabilities.

**3. MATERIAL ADVERSE CHANGES**

The Directors are not aware, as at the Latest Practicable Date, of any material adverse change in the financial or trading position of the Group since 30 September 2008, the date to which the latest published audited financial statements of the Company were made up.

**4. WORKING CAPITAL**

The Directors are satisfied after due and careful enquiry that after taking into account the existing banking facilities available and the existing cash and bank balances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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 circular is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement in this circular misleading; and all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**DISCLOSURE OF INTERESTS****(a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures of the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company or their respective associates in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were 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 positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying shares of the Company held	Approximate percentage of issued ordinary share capital of the Company
Xu Shengheng ( <i>Note 2</i> )	Beneficial owner	1,022,560,000 <sup>(L)</sup>	55,000,000 <sup>(L)</sup>	26.07%
	Interest of controlled corporation		680,000,000 <sup>(L)</sup>	
	Interest of spouse		2,808,000 <sup>(L)</sup>	
Wu Shu Min ( <i>Note 3</i> )	Beneficial owner	146,023,000 <sup>(L)</sup>	68,000,000 <sup>(L)</sup>	3.17%
Chan Wai Kay Katherine ( <i>Note 4</i> )	Beneficial owner	–	55,000,000 <sup>(L)</sup>	1.41%
	Interest of spouse	40,296,000 <sup>(L)</sup>	–	
Soo Kim Fui Jeffrey ( <i>Note 4</i> )	Beneficial owner		35,000,000 <sup>(L)</sup>	0.52%
Fu Hui Zhong ( <i>Note 4</i> )	Beneficial owner		15,000,000 <sup>(L)</sup>	0.22%
Laura Chan Man Kuen ( <i>Note 4</i> )	Beneficial owner		5,000,000 <sup>(L)</sup>	0.074%
Jia Wenzeng ( <i>Note 4</i> )	Beneficial owner		5,000,000 <sup>(L)</sup>	0.074%
Paul Chow Wan Hoi ( <i>Note 4</i> )	Beneficial owner		5,000,000 <sup>(L)</sup>	0.074%

*Notes:*

1. (L) denotes a long position.
2. The underlying shares of the Company in which Mr. Xu Shengheng was interested as the beneficial owner were Share Options granted on 23 June 2009 at a total consideration of HK\$1 to subscribe for Shares at an exercise price of HK\$0.0826 per Share during the period from 23 June 2009 to 21 December 2011. The 680,000,000 underlying shares which Mr. Xu Shengheng was interested in the capacity of interest of controlled corporation represent 680,000,000 Shares to be allotted and issued to Ever Sincere, a company wholly-owned by Mr. Xu Shengheng, upon the exercise in full of the conversion rights attaching to the convertible notes issued pursuant to an acquisition agreement among the Company, Ever Sincere and an individual guarantor dated 21 December 2007.
3. Of the 68,000,000 underlying shares of the Company, which were Shares Options, (i) 10,000,000 were granted on 7 March 2002 at a total consideration of HK\$1 to subscribe for Shares at an exercise price of HK\$0.465 per Share during the period from 7 March 2002 to 21 December 2011; (ii) 3,000,000 were granted on 5 June 2003 at a total consideration of HK\$1 to subscribe for Shares at an exercise price of HK\$0.078 per Share during the period from 5 June 2003 to 21 December 2011; and (iii) 55,000,000 were granted on 23 June 2009 at a total consideration of HK\$1 to subscribe for Shares at an exercise price of HK\$0.0826 per Share during the period from 23 June 2009 to 21 December 2011.
4. The underlying shares of the Company were Share Options granted on 23 June 2009 at a total consideration of HK\$1 to subscribe for Shares at an exercise price of HK\$0.0826 per Share during the period from 23 June 2009 to 21 December 2011.

Save as disclosed above, as the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were 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 positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

**(b) Interests and short positions of substantial Shareholders and other persons in Shares and underlying shares**

As at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the persons, other than the Directors or chief executives 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 under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or, had any options in respect of such capital were as follows:

**Long/Short position in the Shares and underlying shares of the Company**

Name of substantial Shareholder	Capacity	Number of Shares held	Number of underlying shares of the Company held	Approximate percentage of issued ordinary share capital of the Company
China Standard Limited ( <i>Note 2</i> )	Beneficial owner	500,000,000 <sup>(L)</sup>	400,000,000 <sup>(L)</sup>	13.33%
Financial International Holdings Limited ( <i>Note 3</i> )	Beneficial owner	525,716,000 <sup>(L)</sup>		7.78%
Cheung Kwan ( <i>Note 3</i> )	Beneficial owner	157,400,000 <sup>(L)</sup>		10.12%
	Interest of controlled corporation	525,716,000 <sup>(L)</sup>		
American International Group, Inc. ( <i>Note 4</i> )	Investment manager	389,000,000 <sup>(L)</sup>		5.76%
Ever Sincere ( <i>Note 5</i> )			680,000,000 <sup>(L)</sup>	10.07%
Luk Hoi Man ( <i>Note 6</i> )	Beneficial owner	2,808,000 <sup>(L)</sup>		26.07%
	Interest of spouse	1,022,560,000 <sup>(L)</sup>	735,000,000 <sup>(L)</sup>	
Zeng Yi Xiang	Beneficial owner	338,000,000 <sup>(L)</sup>		5.01%

*Notes:*

- (L) denotes a long position.
- The 500,000,000 shares are consideration Shares and the 400,000,000 underlying shares of the Company are conversion Shares issuable upon the exercise of the conversion rights attached to the convertible notes issued to China Standard Limited pursuant to an acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
- Financial International Holdings Limited is wholly-owned by Cheung Kwan. Therefore, under SFO, Cheung Kwan is deemed to be interested in 683,116,000 Shares.
- Shares placed to certain funds, sub funds or accounts that AIG Global Investment Corporation (Asia) Limited ("AIG") is acting for as investment manager or investment advisor. AIG is wholly-owned by American International Assurance Company (Bermuda) Limited ("AIAC"), which in turn is wholly-owned by American International Reinsurance Company, Limited ("AIRC"), which in turn is wholly-owned by AIG Life Holding (International) LLC ("ALH"), which in turn is wholly-owned by American International Group, Inc. ("AIGI"). Under SFO, AIG, AIAC, AIRC, ALH and AIGI are deemed to be interested in the 389,000,000 Shares.

5. The 680,000,000 underlying shares of the Company Shares represent Shares to be allotted and issued to Ever Sincere, a company wholly-owned by Mr. Xu Shengheng, upon the exercise in full of the conversion rights attaching to the convertible notes issued pursuant to an acquisition agreement between the Company, Ever Sincere and an individual guarantor dated 21 December 2007.
6. Ms. Luk Hoi Man is the spouse of Mr. Xu Shengheng, a Director. Therefore, under SFO, Ms. Luk Hoi Man is deemed to be interested in 1,022,560,000 Shares and 735,000,000 underlying shares of the Company including 55,000,000 Share Options that Mr. Xu Shengheng is interested in otherwise than by virtue of interest of spouse.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company are not aware of any other persons 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 under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or, had any options in respect of such capital.

### MATERIAL CONTRACTS

The following contracts (not being contract in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the issue of this circular and are material:

- (a) the sale and purchase agreement dated 30 July 2007 (as amended by two supplemental agreements dated 13 August 2007 and 28 September 2007 respectively) entered into between the Vendor and China Standard Limited in relation to the acquisition of the entire equity interests in 深圳市利得迅環保技術有限公司 (Shenzhen Lidesui Huanbao Jishu Company Limited) and 深圳市利賽園林綠化有限公司 (Shenzhen Lisai Gardens Luhua Company Limited) for a total consideration of HK\$440,000,000;
- (b) a settlement agreement dated 8 August 2007 entered into between Hunan IIN International Co. Ltd. and Siemens in resolving the litigation initiated by 北京西門子通信網路股份有限公司 (Beijing Siemens Communication Network Company Limited\*) against Chengdu TM Network Corporation, a subsidiary of 51% of its equity interest indirectly owned by the Company, for an outstanding amount of approximately RMB6,889,331.56;
- (c) the placing agreement dated 11 September 2007 entered into between the Company and Pacific Foundation Securities Limited, in relation to the placing of 390,752,000 new Shares on a best endeavour basis to not fewer than six places at a price of HK\$0.198 per Share;
- (d) the placing agreement dated 21 December 2007 entered into between the Company and AIG Global Investment Corporation (Asia) Limited in relation to the placing of 400,000,000 new Shares at a price of HK\$0.25 per Share;

- (e) the placing agreement dated 21 December 2007 entered into between the Company and Value Partners Limited in relation to the placing of 400,000,000 new Shares at a price of HK\$0.25 per Share;
- (f) the acquisition agreement dated 21 December 2007 entered into among the Vendor, being a wholly-owned subsidiary of the Company, Ever Sincere and an individual guarantor in relation to the acquisition of the entire issued share capital of Beijing Enterprises Ever Source Limited for a total consideration of HK\$704,000,000;
- (g) the placing agreement dated 25 May 2009 entered into between the Company and Pacific Foundation Securities Limited in relation to the placing of a maximum of 1,100,000,000 Shares on a best efforts basis to independent investors at a price of HK\$0.078 per Share; and
- (h) the Agreement.

\* *For identification purpose only*

## **LITIGATION AND CLAIMS**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance was known to the Directors to be pending or threatened against any member of the Group.

## **CONTRACTS OR ARRANGEMENTS AND COMPETING BUSINESSES**

As at the Latest Practicable Date, there was no contract or arrangement entered into by any member of the Group subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

None of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group since 30 September 2008, the date to which the latest published audited financial statements of the Group were made up, up to the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors nor controlling Shareholders nor their respective associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the Group's businesses, or any other conflict of interest which any of them has or may have with the Group pursuant the GEM Listing Rules.

## **SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group, save for the contracts which will expire or are determinable by the Group within one year without payment of compensation, other than statutory compensation.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 1303, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the material contracts referred to under the paragraph headed "Material Contracts" in this appendix;
- (c) the annual reports of the Company for each of the financial years ended 30 September 2007 and 30 September 2008; and
- (d) this circular.

**GENERAL**

- (a) The company secretary of the Company is Ms. Wong Lai Yuk, an associate member of The Hong Kong Institute of Chartered Secretaries.
- (b) The qualified accountant of the Company is Mr. Jeffrey Soo Kim Fui, a fellow member of The Association of Chartered Certified Accountants.
- (c) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Cayman) Limited at Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The compliance officer to the Company appointed pursuant to Rule 5.19 of the GEM Listing Rules is Mr. Wu Shu Min.
- (f) The Company has an audit committee established with written terms of reference in compliance with GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Group and to provide advice to the Directors. The audit committee of the Company comprises Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi.

Ms. Laura Chan Man Kuen, aged 35, holds a bachelor degree in law. Ms. Chan has over 9 years of experience in corporate administration aspect. Ms. Chan is also the independent non-executive director of China Jin Hui Mining Corporation Limited (stock code: 462), shares of which are listed on the Main Board of the Stock Exchange.

Save for the Company and as disclosed above, Ms. Laura Chan did not hold any directorship in any other public companies whose securities of which are listed on any securities market in Hong Kong or overseas in the past three years.

Mr. Jia Wenzeng, aged 66, has been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Save for the Company and as disclosed, Mr. Jia did not hold any directorship in any public companies whose securities of which are listed on any securities market in Hong Kong or overseas in the past three years.

Mr. Paul Chow Wan Hoi, aged 53, has significant experience in accounting and finance and has been an associate of the Institute of Chartered Accountants in England and Wales since 1983 and an associate of the Institute of Chartered Accountants in Australia since 1988 and is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Chow is currently an independent non-executive director of Tian Teck Land Limited (Stock code 266) and Associated International Hotels Limited (Stock code 105), shares of both of which are listed on Stock Exchange. Mr. Chow was also a director of Global Beverage Asia Inc. (formerly known as Asia Distribution Solutions Limited) whose securities were listed on The London Stock Exchange AIM Market but he resigned from it as director on 27 November 2008. Save for the Company and as disclosed above, Mr. Chow did not hold any other directorships in any listed companies in the past three years.

- (e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

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## NOTICE OF EGM

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# CGS

## CHINA GROUND SOURCE ENERGY LIMITED

### 中國地能有限公司

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

(Stock Code: 8128)

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting of China Ground Source Energy Limited (the “**Company**”) will be held at Room 1303 York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 31 August 2009 at 10:30 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions of the Company:

### ORDINARY RESOLUTION

**“THAT:**

the sale and purchase agreement (“**Agreement**”) dated 30 June 2009 entered into between II Networks International Limited (“**Vendor**”) and Zhang Jie (“**Purchaser**”) in relation to the disposal by the Vendor to the Purchaser one share (“**Sale Share**”) in the capital of and all obligations, liabilities and debts owed to the Vendor by Future Frontier Limited (a copy of which is marked “A” and produced to this meeting and signed by the chairman of this meeting for identification purpose) and the transactions contemplated under the Agreement be and are hereby ratified, confirmed and approved and the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents (with the Company’s seal(s) affixed thereto, if applicable) which in their opinion may be necessary, desirable or expedient for the implementation of and giving effect to the Agreement and any or all of the transactions contemplated thereunder.

### SPECIAL RESOLUTION

**“THAT:**

subject to and conditional upon (i) the listing committee of the board of directors of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) with responsibility for the Growth Enterprise Market of the Stock Exchange granting listing of, and permission to deal in, the Consolidated Shares and the New Shares (both terms as defined below); (ii) the confirmation by the Grand Court of the Cayman Islands (“**Grand Court**”) and the registration by the Registrar of Companies in the Cayman Islands of an official copy of the Grand Court order and the minutes containing the particulars required under the Companies Law, Cap. 22 of the Cayman Islands; and (iii) compliance with any conditions imposed by the Grand Court:

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## NOTICE OF EGM

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- (a) every 4 existing ordinary shares of par value US\$0.01 each in the issued and unissued share capital of the Company be consolidated (“**Share Consolidation**”) into one ordinary share of par value US\$0.04 each (“**Consolidated Share(s)**”);
- (b) the issued share capital of the Company be reduced (“**Capital Reduction**”) by canceling the paid-up capital of the Company to the extent of US\$0.03 on each of the Consolidated Share so that each issued Consolidated Share shall become one fully paid up issued share of par value US\$0.01 (“**New Share**”) in the capital of the Company and any liability of the holders of such shares to make any further contributions to the capital of the Company shall be treated as satisfied and that the amount of issued capital hereby cancelled be made available for issuance of New Shares of the Company so that the authorised capital of the Company of US\$80,000,000 remains unchanged;
- (c) immediately following and subject to the Capital Reduction, each authorised but unissued Consolidated Share be sub-divided into 4 shares of the Company of par value of US\$0.01 each (“**Sub-division**”); and
- (d) the credit arising from the Capital Reduction be applied for such purposes as permitted by the articles of association of the Company and the laws of the Cayman Islands, including setting off the accumulated losses of the Company (“**Application of Credit**”),

and that the directors of the Company be and are hereby authorised to sign, take any and all steps, and to do and/or procure to be done any and all such acts and things, and to approve, sign and execute any such documents and deeds which in their opinion may be necessary, desirable or expedient, to implement and carry into effect the Share Consolidation, the Capital Reduction, the Sub-division and the Application of Credit.”

By order of the board  
**China Ground Source Energy Limited**  
**Chan Wai Kay, Katherine**  
*Chairman*

Hong Kong, 7 August 2009

*Registered office:*

Huntlaw Building, P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

*Head Office Principal Place of Business in Hong Kong:*

Room 1303, York House, The Landmark  
15 Queen’s Road Central  
Central  
Hong Kong

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## NOTICE OF EGM

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*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Delivery of a form of proxy shall not preclude a shareholder from attending and voting in person at the meeting or upon the poll concerned and in such event, the form of proxy shall be deemed to be revoked.
4. As at the date hereof, the board of directors of the Company comprises:

*Executive directors:*

Ms. Chan Wai Kay, Katherine  
Mr. Xu Shengheng  
Mr. Wu Shu Min  
Mr. Jeffrey Soo Kim Fui

*Non-executive director:*

Mr. Fu Hui Zhong

*Independent non-executive directors:*

Ms. Laura Chan Man Kuen  
Mr. Jia Wenzeng  
Mr. Paul Chow Wan Hoi