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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 your stockbroker or other registered dealer in securities, 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 to the purchaser or transferee or to the bank, stockbroker 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)

**GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES,  
REFRESHMENT OF SCHEME LIMIT,  
RE-ELECTION OF DIRECTORS,  
PROPOSED CAPITAL REORGANISATION,  
INCREASE IN AUTHORISED SHARE CAPITAL,  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

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A notice convening an Annual General Meeting of China Ground Source Energy Limited to be held at Room 1303, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong on Monday, 1 February 2010 at 10:30 a.m. is set out on pages 23 to 29 of this circular.

A proxy form for use at the Annual General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong (before 18 January 2010) or 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (on or after 18 January 2010) as soon as possible and in any event not less than 48 hours before the time appointed for holding of the Annual General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the Annual General Meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" section of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least 7 days from the date of its posting.

31 December 2009

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## CHARACTERISTICS OF GEM

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**GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the 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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## 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
“Annual General Meeting” or “AGM”	the annual general meeting of the Company to be held at Room 1303, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 1 February 2010 at 10:30 a.m.
“Board”	the board of Directors of the Company
“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, 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
“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
“Directors”	directors of the Company

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## DEFINITIONS

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“Existing Scheme Limit”	the total number of Shares in respect of which options may be granted pursuant to the Share Option Scheme and any other share option schemes of the Company, not exceeding 10% of the issued share capital of the Company as at the date of passing the relevant resolution to approve the general limit at an extraordinary general meeting of the Company on 25 March 2009
“Existing Shares”	existing ordinary share(s) of US\$0.01 each in the capital of the Company
“GEM”	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
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM as amended, supplemented or otherwise modified from time to time
“General Mandate”	the general mandate to issue Shares of the Company which will be proposed to be granted to the Directors at the AGM
“Group”	the Company and its subsidiaries
“HK\$” and “HK cent(s)”	Hong Kong dollars and cent(s) respectively, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Increase in Authorised Share Capital”	the increase in the authorised share capital of the Company from US\$80,000,000 comprising 2,000,000,000 Consolidated Shares to US\$160,000,000 comprising of 4,000,000,000 Consolidated Shares by authorising an additional 2,000,000,000 unissued Consolidated Shares
“Latest Practicable Date”	29 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“New Shares”	ordinary share(s) of US\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Participants”	any person who satisfies the eligibility criteria under the Share Option Scheme

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## DEFINITIONS

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“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 7 January 2000
“Refreshed Scheme Limit”	the maximum number of Shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option scheme(s) of the Company, being 10% of the Company’s issued share capital as at the date of passing the relevant resolution to approve the refreshment of scheme limit at the AGM
“Repurchases Code”	Hong Kong Code on Share Repurchases
“Repurchase Mandate”	the general mandate to repurchase Shares of the Company which will be proposed to be granted to the Directors at the AGM
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	share(s) in the share capital of the Company
“Shareholders”	shareholders of the Company
“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 Scheme”	the share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 22 November 2001
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivision”	the subdivision of each authorised but unissued Consolidated Shares into 4 New Shares
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America

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## EXPECTED TIMETABLE

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The expected timetable for the Capital Reorganisation is set out below:

Despatch of circular and notice and AGM .....	Thursday, 31 December 2009
Latest time for lodging forms of proxy for AGM .....	10:30 a.m. on Saturday, 30 January 2010
Date of AGM .....	10:30 a.m. on Monday, 1 February 2010
Announcement of results of AGM .....	Monday, 1 February 2010
 <i>The following events are conditional on the results of the AGM. The dates are therefore tentative.</i>	
Effective date for the Share Consolidation .....	Tuesday, 2 February 2010
Original counter for trading in Existing Shares in board lots of 8,000 Existing Shares to be closed .....	9:30 a.m., Tuesday, 2 February 2010
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, 2 February 2010
Dealing in Consolidated Shares commences .....	9:30 a.m., Tuesday, 2 February 2010
First day for free exchange of existing share certificates for new share certificates for the Consolidated Shares commences .....	Tuesday, 2 February 2010
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., Thursday, 18 February 2010
Original counter for trading in Consolidated Shares (in the board lots of 8,000 Consolidated Shares) to be re-opened .....	9:30 a.m., Thursday, 18 February 2010

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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.,  
Thursday, 18 February 2010

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.,  
Wednesday, 10 March 2010

Parallel trading in Consolidated Shares  
(in form of new and existing certificate) ends . . . . . 4:00 p.m.,  
Wednesday, 10 March 2010

Designated broker ceases to stand in the market to  
provide matching service for the sale and  
purchase of odd lots of Consolidated Shares . . . . . 4:00 p.m.,  
Wednesday, 10 March 2010

Last day of free exchange of existing  
share certificates for new share certificates . . . . . Friday, 12 March 2010

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

Effective date for the Capital Reduction  
and the Subdivision . . . . . 4:01 p.m., Monday, 5 July 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, 6 July 2010

Last day for free exchange of the then share  
certificates for new share certificates for New Shares . . . . . Friday, 6 August 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 AGM and the relevant Court hearings and are therefore tentative only.

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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:*

Scotia Centre, 4th Floor

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

31 December 2009

*To the Shareholders, and for information only,  
the holders of the share options and convertible notes*

Dear Sir or Madam,

**GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES,  
REFRESHMENT OF SCHEME LIMIT,  
RE-ELECTION OF DIRECTORS,  
PROPOSED CAPITAL REORGANISATION,  
INCREASE IN AUTHORISED SHARE CAPITAL,  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

**INTRODUCTION**

The purpose of this circular is to provide you with the relevant information regarding the granting of the General Mandate and the Repurchase Mandate, the refreshment of scheme limit, the re-election of Directors, the proposed Capital Reorganisation, the Increase in Authorised Share Capital and to give you notice of AGM at which ordinary and special resolutions will be proposed to consider, and if thought fit, approve at the AGM, among other matters, the granting of the General Mandate and the Repurchase Mandate, the Refreshed Scheme Limit, the re-election of Directors, the Capital Reorganisation and the Increase in Authorised Share Capital.

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## LETTER FROM THE BOARD

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### GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES

At the annual general meeting of the Company held on 6 February 2009, an ordinary resolution was passed to grant to the Directors general unconditional mandate to repurchase Shares of the Company on GEM or on any other exchange on which the Shares have been or may be listed and recognised for this purpose by the SFC and the Stock Exchange under the Repurchases Code, which does not exceed 10 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing the relevant resolution. No Shares have been repurchased pursuant to the repurchase mandate.

At the extraordinary general meeting of the Company held on 25 March 2009, an ordinary resolution was passed to grant to the Directors general unconditional mandate to allot, and otherwise deal with Shares of the Company up to the limit of 20 per cent of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution.

These general mandates will lapse at the conclusion of the forthcoming Annual General Meeting of the Company which will be held at Room 1303, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong at 10:30 a.m. on 1 February 2010. At the AGM, ordinary resolutions will be proposed:

- (i) to grant the Repurchase Mandate to the Directors to enable them to repurchase Shares of the Company on GEM or on any other exchange on which the Shares have been or may be listed and recognised for this purpose by the SFC and the Stock Exchange under the Repurchases Code, which does not exceed 10 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution to grant the Repurchase Mandate;
- (ii) to grant the General Mandate to the Directors to enable them to allot, issue and otherwise deal with Shares of the Company up to the limit of 20 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution to grant the General Mandate, representing 1,350,622,494 Shares which is assumed that no shares are issued or repurchased by the Company from the Latest Practicable Date up to the AGM; and
- (iii) to increase the number of Shares to be allotted, issued and dealt with under the General Mandate by an additional number representing such number of Shares repurchased under the Repurchase Mandate.

As at the Latest Practicable Date, the authorised share capital of the Company was US\$80,000,000 divided into 8,000,000,000 Shares, of which 6,753,112,470 Shares were in issue. There were 588,700,000 outstanding options under the Share Option Scheme, to subscribe up to 588,700,000 Shares.

On the basis of 6,753,112,470 existing Shares in issue as at the Latest Practicable Date, the Directors would be authorised to repurchase up to 675,311,247 Shares which represent 10 per cent. of the 6,753,112,470 existing Shares in issue as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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In the event that all the options are exercised in full on or before 4:00 p.m. on Friday, 29 January 2010 from the holders of options granted under the Share Option Scheme, the number of Shares in issue will be increased to 7,341,812,470. On the basis of such figure (and assuming no Shares are repurchased or further issued) the Directors would be authorised to repurchase up to 734,181,247 Shares which represent 10 per cent. of such 7,341,812,470 Shares.

The Repurchase Mandate allows the Company to make repurchase only during the period from the date of the passing of the relevant resolution until the earliest of the conclusion of next annual general meeting of the Company, the date by which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held and the date upon which the Repurchase Mandate is revoked or varied by an ordinary resolution of shareholders of the Company in general meeting.

In accordance with the GEM Listing Rules, the Company is required to send to the Shareholders an explanatory statement containing all information reasonably necessary to enable them to make an informed decision on whether to vote for or against the ordinary resolution to renew the grant to the Directors of the Repurchase Mandate. Such explanatory statement is set out in Appendix I to this circular.

### **REFRESHMENT OF THE SCHEME LIMIT**

The Company has two share option schemes, namely the Pre-IPO Share Option Scheme adopted on 7 January 2000 and the Share Option Scheme adopted on 22 November 2001. Upon listing of the Shares on GEM on 30 November 2001, no further option was granted under the Pre-IPO Share Option Scheme. Apart from the Pre-IPO Share Option Scheme and the Share Option Scheme, as at the Latest Practicable Date, the Company did not have any other share option schemes.

Under the GEM Listing Rules and the Share Option Scheme:

- (i) the Existing Scheme Limit so refreshed must not exceed 10% of the issued share capital of the Company at the date of the approval of the Refreshed Scheme Limit by the Shareholders;
- (ii) all options granted under the Share Option Scheme and any other share option schemes of the Company (including those exercised, outstanding, cancelled or lapsed in accordance with the Share Option Scheme and any other share option schemes of the Company) prior to the approval of such Refreshed Scheme Limit shall not be counted for the purpose of calculating whether the Refreshed Scheme Limit has been exceeded and the total number of Shares subject to the Refreshed Scheme Limit;
- (iii) Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Pre-IPO Share Option Scheme had expired and was no longer existed. Besides, there were no outstanding and unexercised options granted under the Pre-IPO Share Option Scheme.

Under the Existing Scheme Limit, a total of 565,311,247 options can be granted. On 23 June 2009, there were 564,400,000 options granted under the Share Option Scheme and as at the Latest Practicable Date, these options are still outstanding and exercisable. In addition to 27,300,000 options previously granted of which 3,000,000 options had lapsed, therefore, as at the Latest Practicable Date, there were a total of 588,700,000 outstanding and unexercised options granted under the Share Option Scheme. Under the Existing Scheme Limit, there are still 911,247 options that can be granted.

The Board believes that the Refreshed Scheme Limit will give more flexibility for the Company to grant options to the Participants to reward and motivate them to strive for the future developments and success of the Group, which shall be in the interests of the Company and the Shareholders as a whole.

Assuming that no Shares are issued or repurchased by the Company from the Latest Practicable Date up to the AGM, the Company will have 6,753,112,470 Shares in issue as at the date of the AGM. The Refreshed Scheme Limit, if approved by the Shareholders at the AGM, will allow the Company to issue, upon exercise of options under the Share Option Scheme, a maximum of 675,311,247 Shares, representing 10% of the issued share capital of the Company as at the date of approval of the Refreshed Scheme Limit.

The Refreshed Scheme Limit is conditional upon the approval of such resolution at the AGM and upon granting by the Stock Exchange of the listing of and permission to deal in the Shares to be issued upon the exercise of the options be granted under the Refreshed Scheme Limit.

Application will be made to the Stock Exchange for the listing of and permission to deal in any Shares, representing 10% of the share capital of the Company in issue as at the date of the AGM which may fall to be issued upon the exercise of any options that may be granted under the Refreshed Scheme Limit.

### **RE-ELECTION OF DIRECTORS**

In accordance with Articles 86 and 87 of the Articles of Association of the Company, each of Mr. Fu Hui Zhong, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi, all being Directors appointed by the Board to fill the casual vacancy shall hold office only until the AGM. Each of them, being eligible, would offer himself for re-election. Details of Mr. Fu Hui Zhong, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi are set out in Appendix II to this circular.

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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 18 February 2010 to 10 March 2010 (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 AGM; 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 Option Scheme

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 options under the Share Option Scheme entitling the holders 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 Option Scheme. The Company will notify the holders of the Convertible Notes and the options under the Share Option Scheme regarding adjustments to be made (if any) pursuant to the terms of the Convertible Notes and the Share Option Scheme (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 Option Scheme, 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 30 December 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 2 February 2010 to 12 March 2010 (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 17M Floor, 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 AGM;

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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 options granted under the Share Option Scheme. Assuming there is an immediate exercise in full of subscription rights attaching to the 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 30 September 2009, the unaudited accumulated losses of the Company will be partially 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 6 July 2010 to 6 August 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 17M Floor, 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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### **INCREASE IN AUTHORISED SHARE CAPITAL**

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.

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. As such, the Company may only allot and issue 311,721,883 Consolidated Shares if the then authorised share capital of the Company shall not be increased.

In order to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future, the Board proposes, in the event that the ordinary resolution to approve the Share Consolidation is passed and the special resolution to approve the Capital Reduction and the Subdivision is not passed by the Shareholders at the AGM, to increase the authorised share capital of the Company from US\$80,000,000 comprising 2,000,000,000 Consolidated Shares to US\$160,000,000 comprising 4,000,000,000 Consolidated Shares by authorising an additional 2,000,000,000 unissued Consolidated Shares. As at the Latest Practicable Date, the Company did not have any specific fund raising plans.

### **Condition of the Increase in Authorised Share Capital**

The Increase in Authorised Share Capital is conditional upon the following conditions:–

- (i) the Share Consolidation becoming effective;
- (ii) the special resolution to approve the Capital Reduction and the Subdivision being rejected by the Shareholders at the AGM; and
- (iii) the passing by the Shareholders of an ordinary resolution to approve the Increase in Authorised Share Capital at the AGM.

### **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.

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## LETTER FROM THE BOARD

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### ANNUAL GENERAL MEETING

A notice convening the AGM is set out on pages 23 to 29 of this circular, ordinary resolutions will be proposed to approve the General Mandate, the Repurchase Mandate, the Refreshed Scheme Limit, the Share Consolidation, the Increase of Authorised Share Capital and to re-elect Directors of the Company and special resolutions will be proposed to approve the Capital Reduction, Subdivision and the application of the credit arising from the Capital Reduction as proposed by the Directors.

A proxy form for use at the AGM is enclosed with this circular. Whether or not you intend to attend the AGM in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong (before 18 January 2010) or 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (on or after 18 January 2010) as soon as possible and in any event not less than 48 hours before the time appointed for holding of the AGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the AGM shall be voted by poll.

### RESPONSIBILITY STATEMENT

This circular, for which the directors of the Company 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 enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) 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.

### RECOMMENDATION

The Directors believe that an exercise of the General Mandate may enable the Company to take advantage of market conditions to raise additional capital for the Company and the Repurchase Mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share. The Directors consider that the approval of the Repurchase Mandate, the General Mandate, the Refreshed Scheme Limit, the re-election of the Directors, the Capital Reorganisation and the Increase in Authorised Share Capital at the AGM are in the best interest of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the AGM.

Yours faithfully,  
For and on behalf of  
**CHINA GROUND SOURCE ENERGY LIMITED**  
**Chan Wai Kay, Katherine**  
*Chairman*

The following is the explanatory statement required to be sent to the Shareholders under the GEM Listing Rules in connection with the proposed general mandate for repurchases of Shares to be passed by the Shareholders by an ordinary resolution at the Annual General Meeting.

**(1) Reasons for Repurchases**

The Directors believe that it is in the best interest of the Company and its Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

**(2) Funding of Repurchases**

The Directors wish to state that repurchases pursuant to the Repurchase Mandate would be financed entirely from the Company's available cash flow or working capital facilities and any repurchases will only be funded out of funds of the Company legally available for the purposes in accordance with its memorandum of association and articles of association and the laws of the Cayman Islands.

The Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

**(3) Impact of Repurchases**

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts for the year ended 30 September 2008) in the event that the proposed repurchases were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

**(4) Exercise of the Repurchase Mandate**

As at the Latest Practicable Date, the authorised share capital of the Company was US\$80,000,000 divided into 8,000,000,000 Shares, of which 6,753,112,470 Shares were in issue. There were 588,700,000 outstanding options under the Company's Share Option Scheme, to subscribe up to 588,700,000 Shares.

On the basis of 6,753,112,470 existing Shares in issue as at the Latest Practicable Date, the Directors would be authorised to repurchase up to 675,311,247 Shares which represent 10 per cent. of the 6,753,112,470 existing Shares in issue as at the Latest Practicable Date.

In the event that all the options are exercised in full on or before 4:00 p.m. on Friday, 29 January 2010 from the holders of options granted under the Company's Share Option Scheme, the number of Shares in issue will be increased to 7,341,812,470. On the basis of such figure (and assuming no Shares are repurchased or further issued) the Directors would be authorised to repurchase up to 734,181,247 Shares which represent 10 per cent. of such 7,341,812,470 Shares.

**(5) Disclosure of Interest**

Rule 13.11(2) of the GEM Listing Rules prohibit a company from knowingly repurchasing its shares on GEM from a connected person (as defined in the GEM Listing Rules) and a connected person is prohibited from knowingly selling his/her/its shares to the company on GEM.

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, have any present intention, if the Repurchase Mandate is approved by the Shareholders of the Company, to sell any Shares to the Company or its subsidiaries.

As at the Latest Practicable Date, no connected persons (as defined in the GEM Listing Rules) of the Company have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, in the event that the Company is authorised to make repurchases of the Shares.

**(6) Directors' Undertaking**

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases pursuant to the proposed resolution, if granted, in accordance with the GEM Listing Rules, the applicable laws of the Cayman Islands and the regulations set out in the memorandum and articles of association of the Company.

**(7) Share Repurchase made by the Company**

No repurchases of Shares have been made by the Company during the six months (whether on GEM or otherwise) preceding the Latest Practicable Date.

**(8) Takeovers Code Consequences**

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, Mr. Xu Shengheng, holds 1,057,048,000 Shares, representing approximately 15.7% of the issued share capital of the Company. Ms. Luk Hoi Man, spouse of Mr. Xu Shengheng, also holds 2,808,000 Shares, representing approximately 0.04% of the issued share capital of the Company. In the event that the Directors exercised in full the power to repurchase Shares of the Company in accordance with the terms of the Repurchase Mandate, Mr. Xu Shengheng and Ms. Luk Hoi Man proportionate interests in the voting rights of the Company would be increased to approximately 17.5% in aggregate and they would not be obliged to make a mandatory offer under Rule 26 of the Takeovers Code in this respect.

Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate. Moreover the Directors have no intentions to exercise the Repurchase Mandate to such an extent that would result in the level of shareholdings in the Company held by the public below the minimum public float as required under the GEM Listing Rules.

### (9) Share Prices

The highest and lowest prices at which the Shares were traded on GEM during each of the twelve months from 1 December 2008 to 30 November 2009 and the period from 1 December 2009 up to the Latest Practicable Date were as follows:

<b>Shares</b>	<b>Highest</b> <i>(HK\$)</i>	<b>Lowest</b> <i>(HK\$)</i>
<b>2008</b>		
December	0.062	0.046
<b>2009</b>		
January	0.061	0.044
February	0.083	0.048
March	0.073	0.056
April	0.084	0.051
May	0.107	0.054
June	0.110	0.072
July	0.104	0.068
August	0.090	0.067
September	0.088	0.067
October	0.093	0.072
November	0.094	0.070
December (up to Latest Practicable Date)	0.087	0.065

The following are the particulars of the directors proposed to be re-elected at the AGM:

**Mr. Fu Hui Zhong (“Mr. Fu”)**, aged 49, was appointed as the non-executive Director of the Company with effect from 25 March 2009. Mr. Fu obtained a Bachelor’s Degree in Science and completed MBA core courses in Shanghai Jiao Tong University. He held key position in various IT companies in China. He has extensive experience in operating resources consolidation and business management.

Mr. Fu was an executive Director and chief executive officer of the Company and a director of Far High International Limited from 16 July 2007 to 30 April 2008. Save as disclosed above, as at the Latest Practicable Date, Mr. Fu had not previously held any positions with the Company or its subsidiaries, does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company, and did not have any other major appointments and professional qualifications. Mr. Fu did not hold any directorship in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

Mr. Fu has entered into an appointment letter with the Company in respect of his appointment as the non-executive Director for a term of two years commencing from 25 March 2009 which can be terminated by either party by giving not less than three months’ written notice to the other. Pursuant to the Company’s articles of association, Mr. Fu is subject to retirement by rotation and re-election at annual general meetings of the Company. Mr. Fu will receive an annual director’s fee of HK\$240,000 which is fixed with reference to market conditions and his duties and responsibilities with the Group.

As at the Latest Practicable Date, Mr. Fu was granted options to subscribe for 15,000,000 Shares which are exercisable during the period from 23 June 2009 to 21 December 2011 at an exercise price of HK\$0.0826 per Share. Save as disclosed, Mr. Fu has no interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there are no other information for Mr. Fu which are required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

**Mr. Jia Wenzeng (“Mr. Jia”)**, aged 66, was appointed as an independent non-executive Director, the chairman of the audit committee and member of the remuneration committee of the Company with effect from 25 March 2009. Mr. Jia has been working in financial management since 1963 with in-depth research and practice in 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 as disclosed above, as at the Latest Practicable Date, Mr. Jia had not previously held any positions with the Company or its subsidiaries, does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company, and did not have any other major appointments and professional qualifications. Save as disclosed, Mr. Jia did not hold any directorship in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

Mr. Jia has entered into an appointment letter with the Company in respect of his appointment as an independent non-executive Director for a term of two years commencing from 25 March 2009 which can be terminated by either party by giving not less than three months' written notice to the other. Pursuant to the Company's articles of association, Mr. Jia is subject to retirement by rotation and re-election at annual general meetings of the Company. Mr. Jia will receive an annual director's fee of HK\$120,000 which is fixed with reference to market conditions and his duties and responsibilities with the Group.

As at the Latest Practicable Date, Mr. Jia was granted options to subscribe for 5,000,000 Shares which are exercisable during the period from 23 June 2009 to 21 December 2011 at an exercise price of HK\$0.0826 per Share. Save as disclosed, Mr. Jia has no interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, there are no other information for Mr. Jia which are required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

**Mr Chow Wan Hoi, Paul ("Mr. Chow")**, aged 53, was appointed as an independent non-executive Director and a member of the audit committee and remuneration committee of the Company with affect from 1 May 2009. Mr. Chow, 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 has entered into an appointment letter in respect of his appointment as an independent non-executive Director with the Company for a term of two years commencing from 1 May 2009 which can be terminated by either party by giving not less than three months' written notice to the other. Pursuant to the Company's articles of association, Mr. Chow is subject to retirement by rotation and re-election at annual general meetings of the Company. Mr. Chow will receive an annual director's fee of HK\$120,000, which is fixed with reference to the market conditions and his duties and responsibilities with the Company.

Save as disclosed above, Mr. Chow had not previously held any positions with the Company or its subsidiaries and does not have any relationship with any director, senior management, management shareholders, substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Chow was granted options to subscribe for 5,000,000 Shares which are exercisable during the period from 23 June 2009 to 21 December 2011 at an exercise price of HK\$0.0826 per Share. Save as disclosed, Mr. Chow has no interests in the shares of the Company within the meaning of Part XV of the SFO.

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 companies are listed on the Stock Exchange. Mr. Chow was also a director of Global Beverage Asia Inc. (formerly known as Asia Distribution Solutions Limited) whose securities was listed on The London Stock Exchange AIM Market but he resigned as director on 27 November 2008. Save as disclosed above, Mr. Chow did not hold any other directorships in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

Save as disclosed above, there are no other information for Mr. Chow which are required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules and no other matters that need to be brought to the attention of the Shareholders.

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NOTICE OF ANNUAL GENERAL MEETING

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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 the annual general meeting (the “**Annual General Meeting**”) of China Ground Source Energy Limited (the “**Company**”) will be held on Monday, 1 February 2010 at 10:30 a.m. at Room 1303, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong for the following purposes:

1. To receive and consider the audited financial statements of the Company for the year ended 30 September 2009 together with the reports of the directors of the Company (the “**Directors**”) and the auditors of the Company thereon.
2. To re-elect the directors, Mr. Fu Hui Zhong as non-executive Director, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors, and to authorise the board of Directors to fix their remuneration.
3. To re-appoint HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants as the auditors of the Company and to authorise the Directors to fix their remuneration.
4. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:
  - A. “**THAT:**
    - (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
    - (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

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## NOTICE OF ANNUAL GENERAL MEETING

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(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) any issue of shares of the Company upon the exercise of existing warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and
- (iii) the date on which the authority given to Directors by this resolution is revoked or varied by an ordinary resolution by shareholders of the Company in general meeting.

“**Rights Issue**” means an offer of shares in the Company (“**Shares**”), or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company).”

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## NOTICE OF ANNUAL GENERAL MEETING

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B. **“THAT:**

- (a) subject to paragraph (c) of this resolution, the exercise by the Directors during the Relevant Period (as defined above) of all the powers of the Company to repurchase its shares on GEM or any other stock exchange on which the shares of the Company have been or may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases for such purposes, and otherwise in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM as amended from time to time or that of any other stock exchange, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors to procure the Company to repurchase its shares at such price as the Directors may at their discretion determine in accordance with all applicable laws and regulations;
- (c) the shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (d) for the purpose of this resolution, “Relevant Period” shall have the same meanings as ascribed to it under paragraph (d) of resolution numbered 4A of the notice convening this Annual General Meeting.”

C. **“THAT** conditional upon the passing the resolutions numbered 4A and 4B as set out in the notice convening the Annual General Meeting, the aggregate nominal value of the share capital of the Company which are repurchased by the Company pursuant to and in accordance with resolution numbered 4B shall be added to the aggregate nominal value of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution numbered 4A.”

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## NOTICE OF ANNUAL GENERAL MEETING

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5. To consider and, if thought fit, pass the following resolution (with or without amendments) as ordinary resolution:

**“THAT:**

subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of US\$0.01 each (“**Shares**”) in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the Refreshed Scheme Limit (as defined below), the refreshment of the scheme limit of the Company’s share option scheme adopted on 22 November 2001, of up to 10 per cent. of the number of Shares in issue as at the date of passing this resolution (“**Refreshed Scheme Limit**”) be and is hereby approved and the directors of the Company be and are hereby authorised to grant options and allot and issue Shares pursuant to the exercise of any options granted under the Refreshed Scheme Limit and to do all such acts, deeds and things as they shall, in their absolute discretion, deem fit in order to effect the foregoing.”

6. To consider and, if thought fit, pass the following resolution as ordinary resolution:

**“THAT:**

subject to and conditional upon (i) the listing committee of the board of directors of the Stock Exchange with responsibility for the GEM granting listing of, and permission to deal in, the Consolidated Shares (as defined below):

- (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) all fractional Consolidated Shares shall be disregarded and not be issued to the shareholders of the Company and any fractional entitlements to the issued Consolidated Shares will be aggregated and, if possible, sold and the net proceeds shall be retained for the benefit of the Company by an agent appointed by the Company’s board of directors for that purpose; and
- (c) 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 acts and things, and to approve, sign and execute any such documents which in their opinion may be necessary, desirable or expedient, to implement and carry into effect this resolution.”

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## NOTICE OF ANNUAL GENERAL MEETING

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7. To consider and, if thought fit, pass the following resolution as special resolution:

**“THAT:**

subject to and conditional upon (i) resolution 6 set out above being validly passed; (ii) the listing committee of the board of directors of the Stock Exchange with responsibility for the GEM of the Stock Exchange granting listing of, and permission to deal in, the New Shares (as defined below); (iii) 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 (iv) compliance with any conditions imposed by the Grand Court:

- (a) 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;
- (b) 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
- (c) 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 Capital Reduction, the Sub-division and the Application of Credit.”

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## NOTICE OF ANNUAL GENERAL MEETING

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8. To consider and, if thought fit, pass the following resolution as ordinary resolution:

**“THAT:**

subject to and conditional upon (i) resolution 6 set out above being validly passed and (ii) resolution 7 set out above being rejected:

- (a) the authorised share capital of the Company be and is hereby increased from US\$80,000,000 comprising 2,000,000,000 Shares of par value US\$0.04 each to US\$160,000,000 comprising 4,000,000,000 Shares by the creation of an additional 2,000,000,000 Shares (the **“Increase in Authorised Share Capital”**); and
- (b) 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 Increase in Authorised Share Capital.”

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

Hong Kong, 31 December 2009

*As at the date hereof, the Board of Directors of the Company 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.*

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## NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must 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, Wanchai, Hong Kong (before 18 January 2010) or 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (on or after 18 January 2010) not less than 48 hours before the time fixed for the holding of the Annual General Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Annual General Meeting and in such event, the form of proxy shall be deemed to be revoked.
4. In relation to the proposed resolutions numbered 4(A) and 4(C) above, approval is being sought from the members for the grant to the Directors of a general mandate to authorise the allotment and issue of shares of the Company under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.
5. In relation to the proposed resolution numbered 4(B) above, the Directors wish to state that repurchases of shares of the Company will only be made when the Directors believe that such a repurchase will benefit the Company and its shareholders.
6. The register of members of the Company will be closed from Friday, 30 January 2010 to Monday, 1 February 2010, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (before 18 January 2010) or 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (on or after 18 January 2010) not later than 4:00 p.m. on 29 January 2010.