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

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**If you are in any doubt** about 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 with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the 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)

#### **PROPOSALS INVOLVING TERMINATION OF EXISTING SHARE OPTION SCHEME AND ADOPTION OF NEW SHARE OPTION SCHEME**

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A notice convening an extraordinary general meeting of China Ground Source Energy Limited to be held at Room 1301, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong on 28 July 2010 at 11:00 a.m. is enclosed. A form of proxy is also enclosed.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjourned meeting should you so wish.

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

9 July 2010

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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 shall have the following meanings:*

“associates”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	means a day (other than Saturdays 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 licensed banks in Hong Kong are open for business during normal business hours
“Capital Reorganisation”	the capital reorganisation which involves, inter alia, a share consolidation, the details of which are set out in the circular of the Company dated 31 December 2009
“Company”	China Ground Source Energy Limited, shares of which are listed on GEM
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 28 July 2010 at 11:00 a.m.
“Eligible Employee”	means any employee (whether full time or part time employee, including any executive directors but not any non-executive director) of the Company, its Subsidiaries and any Invested Entity
“Existing Share Option Scheme”	the existing share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 22 November 2001
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Scheme Limit”	the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Group and which must not in aggregate exceed 10 percent of the Shares in issue as at the day of the passing of the relevant ordinary resolution approving the New Share Option Scheme

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## DEFINITIONS

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“Group”	the Company and its Subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Invested Entity”	any entity in which the Group holds an equity interest (irrespective of the percentage of such equity interest)
“Latest Practicable Date”	7 July 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“New Share Option Scheme”	the share option scheme proposed to be adopted by the Company at the EGM, a summary of the principal terms of which is set out in the Appendix to this circular
“Options”	options (if any) granted or to be granted under the Existing Share Option Scheme or the New Share Option Scheme, as the context require
“Participant”	means any of the following:  (aa) any Eligible Employee;  (bb) any director (including non-executive and independent non-executive directors) of the Company, any of its Subsidiaries or any Invested Entity;  (cc) any supplier of goods or services to any member of the Group or any Invested Entity;  (dd) any customer of the Group or any Invested Entity;  (ee) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity;  (ff) such other persons who, at the sole determination of the Board, have contributed to the Group (the assessment criteria of which are (i) contribution to the development and performance of the Group; (ii) quality of work performed for the Group; (iii) initiative and commitment in performing his/her duties; and (iv) length of service or contribution to the Group)

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## DEFINITIONS

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“Share(s)”	ordinary shares of US\$0.04 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Shareholder(s)”	shareholder(s) of the Share(s)
“Subsidiary(ies)”	means a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as modified from time to time) of the Company
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America

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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 1301, 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

9 July 2010

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

Dear Sir or Madam,

**PROPOSALS INVOLVING  
TERMINATION OF EXISTING SHARE OPTION SCHEME  
AND ADOPTION OF NEW SHARE OPTION SCHEME**

**INTRODUCTION**

The purpose of this circular is to provide you with the information concerning the resolution to be proposed at the EGM for approving the adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme.

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## LETTER FROM THE BOARD

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### TERMINATION OF EXISTING SHARE OPTION SCHEME AND ADOPTION OF NEW SHARE OPTION SCHEME

#### New Share Option Scheme

For reasons set out in the section headed “Reasons for adopting the New Share Option Scheme” below, the Board proposes that the New Share Option Scheme be adopted in place of the Existing Share Option Scheme. Under the provisions of the Existing Share Option Scheme, the Company may, by resolution in general meeting, terminate its operation. Accordingly, at the EGM, an ordinary resolution will be proposed for the Company to approve the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme with effect from the date on which the New Share Option Scheme takes effect.

A summary of the principal terms of the New Share Option Scheme is set out in the Appendix to this circular. A copy of the rules of the New Share Option Scheme is available for inspection at the principal place of business of the Company at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong during normal business hours for a 14 day period immediately preceding the EGM.

On 22 November 2001, the Company adopted the Existing Share Option Scheme. On 1 February 2010, a resolution was passed by the Company in general meeting to refresh the general limit on grant of Options under the Existing Share Option Scheme to 10 percent of the issued ordinary share capital of the Company as at the date of passing of that resolution. As at 2 February 2010, being the effective date of the Capital Reorganisation, the issued ordinary share capital of the Company comprised 1,688,278,117 Shares. Accordingly, under the general limit as so refreshed, Options to subscribe for up to 168,827,811 Shares may be granted under the Existing Share Option Scheme, and Options previously granted (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculating the limit as refreshed. As at the Latest Practicable Date, there were a total of 104,360,000 Options which remain outstanding and unexercised.

The New Share Option Scheme is conditional upon:

- (i) the passing of an ordinary resolution at the EGM approving the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme; and
- (ii) the Stock Exchange granting the listing of, and permission to deal in, any new Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Options that may be granted under the New Share Option Scheme and any other schemes of the Company up to the General Scheme Limit.

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## LETTER FROM THE BOARD

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The Existing Share Option Scheme will be terminated on the date on which the New Share Option Scheme comes into effect upon the fulfillment of the conditions set out above. Upon termination of the Existing Share Option Scheme, no further Options will be granted thereunder, but the provisions of the Existing Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of Options (to the extent not already exercised) granted prior to its termination or otherwise as may be required in accordance with the provisions of the Existing Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination will continue to be valid and exercisable in accordance with the Existing Share Option Scheme.

As at the Latest Practicable Date, there were 1,729,943,117 Shares in issue. Assuming there are no further allotment of Shares from the Latest Practicable Date up to the date of approval of the New Share Option Scheme, Options to subscribe for up to 172,994,311 Shares may be issued under the New Share Option Scheme and any other schemes of the Company pursuant to Rule 23.03(3) of the GEM Listing Rules, representing 10 percent of Shares in issue as at the date of approval of the New Share Option Scheme.

The Directors consider that it is not appropriate to state the value of all the Options that can be granted under the New Share Option Scheme as if they had been granted at the Latest Practicable Date prior to the approval of the New Share Option Scheme given that the variables which are critical for the calculation of the value of such Options cannot be determined. These variables include the subscription price payable for Shares upon the exercise of subscription rights attaching to the Options, whether or not Options will be granted under the New Share Option Scheme and the timing of the granting of such Options, the period during which the subscription rights may be exercised, the discretion of the Board to impose any performance target that has to be achieved before the subscription rights attaching to the Options can be exercised and any other conditions that the Board may impose with respect to the Options and whether or not such Options, if granted, will be exercised. The subscription price payable for the Shares depends on the price of the Shares as quoted on the Stock Exchange, which in turn depends on when the Board is to grant Options under the New Share Option Scheme. With a scheme life of ten years, the Board is of the view that it is too premature to state whether or not Options will be granted under the New Share Option Scheme and, if so, the number of Options that may be granted. It is also difficult to ascertain with accuracy the subscription price of the Shares given the volatility to which the price of the Shares may be subject during the ten year life span of the New Share Option Scheme. In the premises, the Directors are of the view that the value of the Options depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the Options will not be meaningful and may be misleading to Shareholders in the circumstances. None of the Directors is or will be a trustee of the New Share Option Scheme or have a direct or indirect interest in any such trustee.

### **Application for listing**

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any Options that may be granted under the New Share Option Scheme up to the General Scheme Limit.

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## LETTER FROM THE BOARD

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### **Reasons for adopting the New Share Option Scheme**

The Existing Share Option Scheme will expire on 21 November 2011. The Directors consider that it is appropriate to adopt the New Share Option Scheme. The purpose of the New Share Option Scheme is to enable the Group to recruit and retain senior executives and key employees, attract human resources that are valuable to the Group and any Invested Entity and motivate employees' performance measurable against key drivers of value to Shareholders. With this in mind, the management of the Company proposes that the Existing Share Option Scheme be replaced by the New Share Option Scheme so as to further expand the exact scope of Participants that the New Share Option Scheme is intended to benefit. The scope of Participants under the New Share Option Scheme is wider than that under the Existing Share Option Scheme so that it not only encompasses full time and part time employees, directors (including non-executive directors and independent non-executive directors), any consultant, advisers of the Group and the Invested Entities and other persons who, at the sole determination of the Board, have made contributions to the Group, it also encompasses suppliers and customers of the Group or any Invested Entity, which are not included in the scope of Participants under the Existing Share Option Scheme. The New Share Option Scheme also expressly provides that, the Board may, with respect to each grant of Options, determine the subscription price (being not less than the minimum price specified in the GEM Listing Rules), the conditions precedent and any performance targets that apply to the Options. The Directors believe the New Share Option Scheme will provide the Board with flexibility in determining the applicable performance targets and any other conditions to which the specific grant of Options may be subject on a case-by-case basis, and thus will place the Group in a better position to attract human resources that are valuable to the long-term growth and development of the Group. There are no businesses or interests of the Directors that compete or may compete with the business of the Group.

### **EGM**

A notice convening the EGM to be held at Room 1301, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong on 28 July 2010 at 11:00 a.m. is set out on pages 19 to 20 of this circular. To the best knowledge of the Directors, no Shareholders have a material interest in the New Share Option Scheme different to that of any other Shareholders and accordingly, no Shareholders will have to abstain from voting at the EGM. A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy and return it to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not prevent you from attending and voting at the EGM or any adjourned meeting should you so wish.

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## LETTER FROM THE BOARD

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### 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 or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

### RECOMMENDATION

The Directors consider that the ordinary resolution for approving the adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme is in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

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

*This Appendix summaries the principal terms of the New Share Option Scheme but does not form part of, nor was it intended to be, part of the New Share Option Scheme nor should it be taken as effecting the interpretation of the rules of the New Share Option Scheme.*

**(A) PURPOSE OF THE SCHEME**

The purpose of the New Share Option Scheme is to provide incentives or rewards to Participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and/or any Invested Entity.

**(B) WHO MAY JOIN**

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of Participants, to take up options to subscribe for Shares:

- (i) any Eligible Employee;
- (ii) any director (including non-executive directors and independent non-executive directors) of the Company, any of its Subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (vi) such other persons who, at the sole determination of the Board, have contributed to the Group (the assessment criteria of which are (i) contribution to the development and performance of the Group; (ii) quality of work performed for the Group; (iii) initiative and commitment in performing his/her duties; and (iv) length of service or contribution to the Group)

and, for the purposes of the New Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of Participants or any discretionary object of a Participant which is a discretionary trust.

The basis of eligibility of any of the above class of Participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity.

**(C) MAXIMUM NUMBER OF SHARES**

- (i) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 30 percent of the total number of Shares in issue from time to time.
- (ii) The total number of Shares which may be issued upon exercise of all Options to be granted under the New Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10 percent of the total number of Shares in issue as at the day of the passing of the relevant ordinary resolution.
- (iii) Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Company must not exceed 10 percent of the total number of Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, Options previously granted (including those outstanding, cancelled, lapsed or exercised in accordance with the New Share Option Scheme and any other share option scheme of the Company) will not be counted.
- (iv) Subject to (i) above and without prejudice to (iii) above, the Company may issue a circular to the Shareholders and seek separate Shareholders' approval in general meeting to grant Options beyond the General Scheme Limit or, if applicable, the limit referred to in (D) below to Participants specifically identified by the Company before such approval is sought.

**(D) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT**

The total number of Shares issued and which may fall to be issued upon exercise of the Options granted under the New Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each Participant in any 12 month period shall not exceed 1 percent of the total number of Shares in issue (the "Individual Limit"). Any further grant of Options in excess of the Individual Limit in any 12 month period up to and including the date of such further grant, shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such Participant and his associates abstaining from voting.

**(E) GRANT OF OPTIONS TO CONNECTED PERSONS**

- (i) Any grant of Options under the New Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).
- (ii) In the event of any change in the terms of Options granted to a substantial shareholder or an independent non-executive of the Company; or where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:
  - (i) representing in aggregate over 0.1 percent of the Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in circular.

**(F) TIME OF ACCEPTANCE AND EXERCISE OF AN OPTION**

An offer of grant of an Option may be accepted by a Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK\$1 is payable on acceptance of the offer of grant of an Option.

An Option may be exercised in the manner set out in the offer of grant of such Option and in accordance with the terms of the New Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date of grant of the Option and shall end in any event not later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof. No minimum period for which the Option has to be held before it can be exercised is specified in the New Share Option Scheme, however, the offer of grant of an option may set out the minimum period for which the Option has to be held before it can be exercised which may be determined by the Directors at their discretion.

**(G) PERFORMANCE TARGETS**

An exercise of Option may or may not be subject to the achievement of performance targets which may be determined by the Board at its absolute discretion on a case by case basis upon the grant of the relevant Option and stated in the offer of grant of such Option.

**(H) SUBSCRIPTION PRICE FOR SHARES**

The subscription price for Shares under the New Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Directors may grant Options in respect of which the subscription price is fixed at different prices for each different period during the option period provided that the subscription price for Share for each of the different period shall not be less than the subscription price determined in the aforesaid manner.

**(I) RANKING OF SHARES**

- (i) Shares allotted upon the exercise of an Option will be subject to all the provisions of the articles of association of the Company and the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and will rank *pari passu* in all respects with the fully paid Shares in issue as from the day when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of the Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the grantee is registered on the register of members of the Company, provided always that when the date of exercise of the Option falls on a day upon which the register of members of the Company is closed then the exercise of the Option shall become effective on the first Business Day in Hong Kong on which the register of members of the Company is re-opened. A Share allotted upon the exercise of an Option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.
- (ii) Unless the context otherwise requires, references to "Shares" in this Appendix include references to shares in the ordinary share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

**(J) RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS**

No offer for grant of Options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements under the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results of any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the announcement of the results, no Option shall be granted.

The Directors may not grant any Option to a Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the code of corporate governance practice incorporating the code provisions of Appendix 15 of the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

**(K) PERIOD OF THE NEW SHARE OPTION SCHEME**

The New Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the New Share Option Scheme becomes unconditional.

**(L) RIGHTS ON CEASING EMPLOYMENT**

If the grantee of an Option ceases to be a Participant for any reason other than death or the termination of his or her employment on one or more of the grounds referred to in sub-paragraph (N) below, the grantee may, within a period of three (3) month (or such longer period as the Board may determine) from the date of cessation (which date shall be the last actual working date with the Company or the relevant Subsidiary or Invested Entity whether salary is paid in lieu of notice or not), exercise his or her Option, up to his or her entitlement at such date of cessation in whole or in part (to the extent it has become exercisable and not already exercised).

**(M) RIGHTS ON DEATH**

If the grantee of an option ceases to be a Participant by reason of his or her death (provided that none of the events which would be a ground for termination of his or her employment as described in paragraph (N) below arises prior to his or her death), his or her personal representative(s) may exercise the Option (to the extent which has become exercisable not already exercised) in whole or in part within a period of 12 months, following the date of death.

**(N) RIGHTS ON DISMISSAL**

If the grantee of an option ceases to be an Eligible Employee by reason of the termination of his or employment (in the case of an employee) or appointment (in the case of a director) on any one or more of the grounds that he or she has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to common law or any applicable laws or under his or her service contract with the Company or the relevant Subsidiary or Invested Entity, his or her Option will lapse automatically on the date he or she ceases to be a Participant for such reasons.

**(O) RIGHTS ON BREACH OF CONTRACT**

If the Directors, at their absolute discretion, determine that the grantee of any Option (other than an Eligible Employee) or his or her associate has committed any breach of any contract entered into between the grantee or his or her associate on the one part and the Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her creditors generally, the Directors shall determine that the outstanding Option granted to the grantee shall lapse. In such event, his or her option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

**(P) RIGHTS ON A GENERAL OFFER**

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his or her Option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his or her option at any time before the close of such offer (or any revised offer). Subject to the above, an Option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

**(Q) RIGHTS ON WINDING UP**

If a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice of such general meeting give notice thereof to all grantees of Options and a grantee (or his or her legal representative(s)) may, subject to the provisions of all applicable laws and at any time no later than two (2) Business Days prior to the date of such proposed general meeting by notice in writing to the Company, exercise his or her Options (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the New Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his or her Option, to participate in the distribution of the assets of the Company available in liquidation, *pari passu*, with the Shares in issue on the date prior to passing of the resolution to wind-up the Company. Subject to the above, an Option will lapse automatically (to the extent not already exercised) on the date of commencement of the winding-up of the Company.

**(R) RIGHTS ON COMPROMISE OR ARRANGEMENT BETWEEN THE COMPANY AND ITS CREDITORS**

In the event of a compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his or her legal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) calendar months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her Option (to the extent such which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. The Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her Option so as to place the grantee in the same position as nearly as possible as would have been the case had such Shares been subject to such compromise or arrangement. Subject to the above, an Option will lapse automatically on the date the proposed compromise or arrangement becomes effective.

**(S) ADJUSTMENTS TO THE SUBSCRIPTION PRICE OR NUMBER OF SECURITIES**

In the event of capitalization issue, rights issue, sub-division or consolidation of shares or reduction of the share capital or other similar reorganization of the share capital of the Company, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to the Company as fair and reasonable will be made to the number of Shares subject to the New Share Option Scheme and/or the Options so far as unexercised and/or the subscription price for Shares and/or the method of exercise of the Option and/or the maximum number of Shares that may be issued subject to the General Mandate Limit and/or the Individual Limit provided that (i) any adjustments shall be made on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration and that the aggregate subscription price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value; and (iii) no such adjustment will be required in circumstances where there is an issue of Shares or other securities of the Group as consideration in a transaction.

In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial advisor of the Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules (including, where applicable, the requirements contained in any supplementary guidance issued by the Stock Exchange as may be in force).

**(T) CANCELLATION OF OPTIONS**

Any cancellation of Options granted but not exercised must be approved by the Board and the Shareholders in general meeting, with Participants and their associates abstaining from voting.

**(U) TERMINATION OF THE NEW SHARE OPTION SCHEME**

The Company, by resolution in general meeting, or the Board may at any time terminate the New Share Option Scheme and in such event no further Options shall be offered but in all other respects the provisions of the New Share Option Scheme shall remain in force and effect to the extent necessary to give effect to the exercise of any Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

**(V) RIGHTS ARE PERSONAL TO THE GRANTEE**

An Option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such grantee.

**(W) LAPSE OF OPTION**

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the period referred to paragraph (F);
- (ii) the expiry of the periods or dates referred to in paragraphs (L), (M), (N), (O), (P) (Q) and (R); and
- (iii) the date on which a breach of the provision restriction on transfer and assignment of an Option referred to in paragraph (v) is committed.

**(X) INTERPRETATION AND ADMINISTRATION**

The New Share Option Scheme shall be subject to the interpretation and administration of the Board (including the independent non-executive directors) whose decision (save as otherwise provided herein) shall be final and binding on all parties. The Board shall have the right, among other matters, to (i) interpret and construe the provisions of this Scheme; (ii) determine the persons who will be offered Options under this Scheme, and the number of Shares and the subscription price, in relation to such Options, in accordance with the provisions of this Scheme; (iii) subject to the relevant provisions of the New Share Option Scheme, make such appropriate and equitable adjustments to the terms of Options granted under this Scheme as it may deem necessary; and (iv) make such other decisions or determinations as it shall deem appropriate for the administration of the New Share Option Scheme.

**(Y) OTHERS**

- (i) Any alterations to the provisions of the New Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules must be approved by the Shareholders in general meeting.
- (ii) Any alterations to the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the New Share Option Scheme.
- (iii) The amended terms of the New Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
- (iv) Any change to the authority of the Directors in relation to any alteration to the terms of the New Share Option Scheme shall be approved by the Shareholders in general meeting.

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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 (“**Company**”) will be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on 28 July 2010 at 11:00 a.m. (or an adjournment thereof) for the follow purposes:

1. To receive and consider the audited financial statements and the reports of the directors and the independent auditors for the six months ended 31 March 2010.
2. To, to consider and, if thought fit, pass the following resolution as Ordinary Resolution:

### **ORDINARY RESOLUTION**

“**THAT** conditional on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the shares of US\$0.04 each in the capital of the Company (“**Shares**”) which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the options that may be granted under the share option scheme (a copy of which is produced to the meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) (“**New Share Option Scheme**”) up to the general scheme limit, being the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Group and which must not in aggregate exceed 10 percent of the Shares in issue as at the day of the passing of this resolution, the New Share Option Scheme be and is hereby approved and adopted by the Company and with effect from the date of the New Share Option Scheme becoming unconditional and coming into effect, the existing share option scheme of the Company which was adopted by the Company on 22 November 2001 be terminated therefrom and the directors of the Company (“**Directors**”) be and are hereby authorised to grant options to subscribe for Shares under the New Share Option Scheme and to allot and issue Shares pursuant to the exercise of any options which may fall to be granted under the New Share

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## NOTICE OF EGM

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Option Scheme and to do all such acts as they may in their absolute discretion consider necessary or expedient in order to give full effect to the New Share Option Scheme, and that to the extent permissible under the articles of association of the Company, the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange and the rules of the New Share Option Scheme, the Directors may vote in respect of any resolution(s) under or affecting the New Share Option Scheme (including the granting of options thereunder or approving the allotment and issue of Shares upon exercise of options thereunder) notwithstanding any interest(s) of any Director(s).”

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

Hong Kong, 9 July 2010

*Registered office:*

Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

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

Room 1301, York House  
The Landmark  
15 Queen’s Road Central  
Central, Hong Kong

*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the extraordinary general meeting shall be entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a shareholder 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 Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible but in any event 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.

*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.*