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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 licensed securities dealer or registered institution 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 (the “**Company**”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the 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)

**CONNECTED TRANSACTION REGARDING SUBSCRIPTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

**VEDA | CAPITAL**  
**智 略 資 本**

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A letter from the board is set out on pages 4 to 10 of this circular. A letter of advice from the independent board committee of the Company is set out on page 11 of this circular. A letter of advice of Veda Capital Limited, the independent financial adviser of the Company, containing its opinion and advice to the independent board committee and independent shareholders of the Company is set out on pages 12 to 22 of this circular.

A notice convening the EGM of the Company to be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Tuesday, 11 January 2011 at 11 a.m. is set out on pages 31 to 32 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Service 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 the holding of the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

*This circular will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for seven days from the date of its publication and on the website of the Company at [www.iini.com](http://www.iini.com).*

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)**

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

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

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM
“Completion”	completion of the Subscription
“Completion Date”	the date on which completion of the Subscription takes place
“connected person”	has the meaning ascribed to this term under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be held and convened for the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder
“Executive”	the executive director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the executive director
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors to issue, allot and deal with not more than 20% of the issued Shares as at the date of the annual general meeting held on 1 February 2010
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, i.e. Ms. Chan Man Kuen, Laura, Mr. Jia Wenzeng and Mr. Chow Wan Hoi, Paul, who have no material interest in the Subscription Agreement and the transactions contemplated thereunder, which has been established by the Company to advise the Independent Shareholders on the terms of the Subscription Agreement
“Independent Shareholders”	Shareholders other than the Subscriber and his respective associate(s)
“Independent Third Party”	person or company who/which is not connected with the directors, chief executive, significant shareholders or substantial shareholders of the Company and its subsidiaries or any of their respective associates
“Latest Practicable Date”	17 December 2010, being the latest practicable date prior to the printing of this circular of the purpose of ascertaining certain information contained in this circular
“Lock-up Period”	the period from the Completion Date to the first anniversary of the Completion Date (both days inclusive)
“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of US\$0.04 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Xu Shengheng, an executive director of the Company and a substantial shareholder of the Company as at the date of this circular
“Subscription”	the subscription for the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the Subscription Agreement dated 1 December 2010 and entered into between the Company and the Subscriber in respect of the Subscription

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## DEFINITIONS

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“Subscription Price”	the subscription price of HK\$0.3184 per Subscription Share
“Subscription Shares”	an aggregate of 234,704,000 Shares to be subscribed by the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollars, the lawful currency of the United States of America
“Veda Capital”	Veda Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities as defined under the SFO, appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Wafangdian Projects”	cooperation between the Company and the government of Wafangdian City, the PRC, in the development of an ecological low-carbon model district and the promotion of shallow ground source energy as alternative source energy for heating/cooling systems in the buildings in Wafangdian City, the PRC, the details of which were more particularly described in the announcement of the Company dated 13 May 2010
“%”	per cent

*For the purpose of illustration only, amounts denominated in US\$ have been translated to HK\$ using the conversion rate of US\$1 to HK\$7.80, unless otherwise indicated.*

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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. Soo Kim Fui, Jeffrey

*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:*

*Independent non-executive Directors:*

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

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

21 December 2010

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

Dear Sir or Madam,

**CONNECTED TRANSACTION REGARDING SUBSCRIPTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 1 December 2010 in which the Board announced that on 1 December 2010 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 234,704,000 Shares at the Subscription Price of HK\$0.3184 per Subscription Share.

The purpose of this circular is to provide with you the information relating to (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the notice of the EGM.

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## LETTER FROM THE BOARD

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### CONNECTED TRANSACTION REGARDING SUBSCRIPTION

#### **Subscription Agreement**

On 1 December 2010 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 234,704,000 Shares in cash at the Subscription Price of HK\$0.3184 per Subscription Share. The aggregate nominal value of the Subscription Shares is US\$9,388,160 (equivalent to approximately HK\$73,227,648).

#### ***The Subscriber***

The Subscriber is an executive director of the Company. He is also a substantial shareholder of the Company holding 373,615,000 Shares as at the Latest Practicable Date, representing approximately 20.41% of the existing issued share capital of the Company. After the Subscription, the Subscriber will hold 608,319,000 Shares, representing approximately 29.45% of the issued share capital of the Company as enlarged by the Subscription Shares. Immediately after completion of the Subscription and assuming the 25,350,000 share options held by the Subscriber being fully exercised, the Subscriber will hold 633,669,000 Shares, representing approximately 30.31% of the issued share capital of the Company as enlarged by the Subscription Shares and assuming the 25,350,000 share options held by the Subscriber being fully exercised.

#### ***Number of Subscription Shares***

The Subscription Shares represent approximately 12.82% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 11.36% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

#### ***Subscription Price***

The Subscription Price of HK\$0.3184 per Subscription Share represents:

- (i) a discount of approximately 16.2% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on 1 December 2010, being the date of the Subscription Agreement; and
- (ii) a discount of approximately 18.15% to the average closing price of approximately HK\$0.389 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Subscription Agreement.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber after taking into account of (i) the large size of the Subscription and the substantial amount of money involved; (ii) the Subscriber's lock-up undertaking as further described below; (iii) the prevailing market price and the recent low trading volume of the Shares; (iv) the high volatility of the capital market recently; and (v) the requirement of funds for further investment in Wafangdian

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## LETTER FROM THE BOARD

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Projects. In view of the recent low trading volume of the Shares, the large size of the Subscription and the lock-up undertaking by the Subscriber, the Directors consider that the Subscription Price, the related discount and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### *Rights*

The Subscription Shares will be credited as fully paid and when allotted and issued, will rank equally in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Subscription Shares, and will be free from all encumbrances whatsoever.

### *Subscriber's Lock-Up Undertaking*

Pursuant to the Subscription Agreement, the Subscriber has undertaken to and covenanted with the Company that during the Lock-up Period, he shall not and shall procure that none of his nominees or trustees holding in trust for him the Subscription Shares shall sell, transfer or otherwise dispose of (or enter into an agreement to do any of the foregoing) any of the Subscription Shares.

### *Specific Mandate to issue the Subscription Shares*

The Subscription Shares will be allotted and issued pursuant to a specific mandate to be granted by the Independent Shareholders at the EGM. The General Mandate will not be utilized for the allotment and issue of the Subscription Shares.

### *Conditions*

Completion of the Subscription Agreement is conditional upon:

- (i) the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Subscription Shares; and
- (ii) the passing by the Independent Shareholders at the EGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Subscription Shares to the Subscriber.

None of the conditions referred above is capable of being waived by any parties to the Subscription Agreement. In the event that the conditions of the Subscription are not fulfilled by 5:00 p.m. (Hong Kong time) on 28 February 2011 or such other date as may be agreed between the parties to the Subscription Agreement, the Subscription Agreement shall, subject to the liability of any party to the others in respect of any antecedent breaches of the terms of thereof, be null and void and of no effect.

As at the Latest Practicable Date, no conditions precedent set out above have been fulfilled.

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## LETTER FROM THE BOARD

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### *Completion*

Completion will take place at 3:00 p.m. (Hong Kong time) on the seventh business day after the conditions of the Subscription are fulfilled (or such other date as the Subscriber and the Company may agree).

### *Application for listing*

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

### **REASONS FOR THE SUBSCRIPTION AGREEMENT**

The Group is principally engaged in the promotion of new energy with a focus on shallow ground energy as alternative energy for heating and cooling.

The Board considers that the Subscription would enable the Company to enlarge the Company's capital base and secure funds for future investment in Wafangdian Projects and for future business development.

The Company has generally considered various fund-raising methods, including bank and other debt financing, or equity fund raising such as rights issue. However, these fund-raising exercises tend to take relatively more time to implement as compared to a share subscription. Having assessed the funding needs of the Wafangdian Projects and timing of other alternative fund-raising exercises, the Board believes that the Subscription is a better fund-raising alternative for the Group at present and the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Directors (excluding the members of the Independent Board Committee who will give their opinion in the letter of advice to the Independent Shareholders in this circular) consider that the Subscription Agreement is entered into upon normal commercial terms following arm's length negotiations between the Company and the Subscriber and that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### **USE OF PROCEEDS**

The net proceeds of the Subscription will be approximately HK\$74.2 million after deducting expenses of the Subscription. The Company intends to use 80% of the net proceeds from the Subscription principally as funds for capital injection for companies specifically established for project development and site formation and ground works for utilities installations in the land reserve in the main district at the coastal economic area of Wafangdian City under the Wafangdian Projects and the remaining 20 % for future business development and for the general corporate and working capital requirements of the Group.

The net proceeds raised per new Subscription Share upon the completion of the Subscription will be approximately HK\$0.316 per new Share.

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## LETTER FROM THE BOARD

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### CHANGES TO THE SHAREHOLDING AS A RESULT OF THE SUBSCRIPTION

The effect of the Subscription on the shareholding structure of the Company is as follows:

Name of Shareholders	Immediately before completion of the Subscription		Immediately after completion of the Subscription		Immediately after completion of the Subscription and assuming the 25,350,000 share options held by the Subscriber being fully exercised	
	Number of Shares	Approximate percentage of the interests	Number of Shares	Approximate percentage of the interests	Number of Shares	Approximate percentage of the interests
The Subscriber	373,615,000	20.41%	608,319,000	29.45%	633,669,000	30.31%
Spouse of the Subscriber	702,000	0.04%	702,000	0.03%	702,000	0.03%
Other non-public Shareholders	47,829,750	2.61%	47,829,750	2.32%	47,829,750	2.29%
Other Public Shareholders	<u>1,408,456,367</u>	<u>76.94%</u>	<u>1,408,456,367</u>	<u>68.20%</u>	<u>1,408,456,367</u>	<u>67.37%</u>
Total:	<u><u>1,830,603,117</u></u>	<u><u>100.00%</u></u>	<u><u>2,065,307,117</u></u>	<u><u>100.00%</u></u>	<u><u>2,090,657,117</u></u>	<u><u>100.00%</u></u>

### TAKEOVERS CODE IMPLICATIONS

Since the Subscriber will hold approximately 29.45% of the total issued share capital of the Company as enlarged by the Subscription immediately after Completion and its shareholding in the Company will further increase to 30.31% upon full exercise of share options held by the Subscriber, the Subscriber will be obliged to make a mandatory offer under Rule 26 of the Takeovers Code unless a waiver from strict compliance with Rule 26 has been obtained from the Executive.

Out of the 25,350,000 outstanding share options granted to the Subscriber, 13,750,000 will lapse and not be exercisable on 21 December 2011 and a further 11,600,000 will lapse and not be exercisable on 8 September 2020. The Subscriber will not exercise the share options held by him before Completion to such an extent that will result in any obligation to make a mandatory offer under the Takeovers Code. However, in the event that such mandatory offer obligation arises, the Subscriber shall comply with the provisions in the Takeovers Code.

### FUND RAISING ACTIVITY OF THE COMPANY

During the past 12 months prior to the date of this circular, the Company has not conducted any fund raising activities.

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## LETTER FROM THE BOARD

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### EGM

The Subscriber is an executive Director and substantial Shareholder and thus a connected person of the Company. The entering into of the Subscription Agreement therefore constitutes a connected transaction of the Company under Rule 20.13(1)(a) of the GEM Listing Rules and is subject to the requirements of reporting, announcement and approval by the Independent Shareholders, by way of poll, pursuant to the GEM Listing Rules. Under the GEM Listing Rules, the Subscriber and his associates, who hold 374,317,000 Shares in aggregate, are required to abstain from voting on the resolution to approve the Subscription Agreement and the transactions contemplated under or in connection with the Subscription Agreement at the 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 Tuesday, 11 January 2011 at 11 a.m. is set out on pages 31 to 32 of this circular. Ordinary resolution will be proposed at the EGM to approve, among other things, the Subscription Agreement and transactions contemplated thereunder. All the resolution proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the form of proxy and return it to the Company's share registrar, Computershare Hong Kong Investor Service 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 for the EGM. The completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Ms. Chan Man Kuen, Laura, Mr. Jia Wenzeng and Mr. Chow Wan Hoi, Paul, being all independent non-executive Directors, has been formed to advise the Independent Shareholders as to the terms of the Subscription Agreement and the transactions contemplated thereunder. Veda Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in the terms of the Subscription Agreement and the transactions contemplated thereunder and how to vote at the EGM in relation to the resolution in respect thereof.

The text of the letter from the Independent Board Committee is set out on page 11 of this circular, the text of the letter from Veda Capital containing its advice is set out on pages 12 to 22 of this circular.

### RECOMMENDATION

Taking into consideration of the reasons set out in the paragraphs headed "Reasons for the Subscription Agreement" above and the recommendations of the Independent Board Committee and Veda Capital, the Directors (including members of the Independent Board Committee), having taken

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## LETTER FROM THE BOARD

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into account the advice of Veda Capital, consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM for approving the terms of the Subscription Agreement and the transactions contemplated thereunder.

### **ADDITIONAL INFORMATION**

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

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

**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)

21 December 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION REGARDING SUBSCRIPTION**

We refer to the circular of the Company dated 21 December 2010 (the “**Circular**”) of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Circular.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you as to whether the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Veda Capital has been appointed to advise the independent board committee in this regard. Details of Veda Capital’s advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 12 to 22 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 10 to the Circular and the additional information set out in the appendix of the Circular.

Having taken into account the advice of Veda Capital, we consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,  
the Independent Board Committee

**Chan Man Kuen, Laura**  
*Independent non-executive  
Director*

**Jia Wenzeng**  
*Independent non-executive  
Director*

**Chow Wan Hoi, Paul**  
*Independent non-executive  
Director*

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## LETTER FROM VEDA CAPITAL

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*The following is the full text of the letter from Veda Capital setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, which has been prepared for the purpose of inclusion in this circular.*

**VEDA | CAPITAL**  
**智 略 資 本**

**Veda Capital Limited**  
Suite 3214, 32/F., COSCO Tower  
183 Queen's Road Central  
Hong Kong

21 December 2010

*To the Independent Board Committee and the Independent Shareholders  
of China Ground Source Energy Limited*

Dear Sirs,

### **CONNECTED TRANSACTION REGARDING SUBSCRIPTION**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in this circular (the “**Circular**”) dated 21 December 2010 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Subscriber and the Company entered into the Subscription Agreement for the subscription of the Subscription Shares in the Company on 1 December 2010. Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe and the Company has agreed to issue and allot 234,704,000 Subscription Shares at a price of HK\$0.3184 per Subscription Share.

The Subscriber is an executive Director and a substantial Shareholder holding 373,615,000 Shares as at the Latest Practicable Date, representing approximately 20.41% of the existing issued share capital of the Company. The Subscriber is a connected person of the Company and the proposed issue of Subscription Shares to the Subscriber constitutes a connected transaction for the Company under the GEM Listing Rules and is conditional upon, inter alia, approval by the Independent Shareholders voting by way of poll, at the EGM.

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## LETTER FROM VEDA CAPITAL

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The Independent Board Committee of the Company comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Subscription. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Subscription are on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Subscription is in the interests of the Company and the Independent Shareholders as a whole; and (iii) whether the Independent Shareholders should vote in favour of the resolution to approve the Subscription.

### **BASIS OF OUR ADVICE**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true at the date of the EGM.

We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

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## LETTER FROM VEDA CAPITAL

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### A. HISTORICAL FINANCIAL PERFORMANCE OF THE GROUP

The principal activities of the Group are the promotion of new energy with a focus on shallow ground energy as alternative energy for heating and cooling.

#### (i) Six months ended 31 March 2010

We noted from the annual report 2009/10 of the Company (“AR 2010”) that as the Company has passed a resolution to change its financial year end date at the beginning of 2010, the financial results in AR 2010 only covered the six months ended 31 March 2010. As such, we will make comparison on the financial performance of the Group for the six months ended 31 March 2010 as set out in AR 2010 with the financial performance in the corresponding period in the year 2009 as set out in the interim report 2008/2009 of the Company for reference purposes.

The Group recorded revenue from continuing operations of approximately HK\$180.83 million for the six months ended 31 March 2010, representing an increase of approximately 10.62% from that for six months ended 31 March 2009 of approximately HK\$163.47 million. As advised by the Company, the increase in revenue was mainly due to the increase in revenue from the business segment of shallow ground energy utilization. The Group reported loss attributable to Shareholders of approximately HK\$46.40 million for the six months ended 31 March 2010, representing an increase in loss of approximately 220.66% from that for the six months ended 31 March 2009 of approximately HK\$14.47 million. As advised by the Company, the increase in loss was mainly due to the impairment provision made on goodwill and assets of Shenzhen Lisai Industrial Development Co., Ltd.

In addition to the above financial performance, Shareholders should note that the auditors have expressed a qualified opinion (with basis for qualified opinion, details of such basis have been set out in the AR 2010) in the independent auditor’s report in AR 2010 which is set out as follows:

*“In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2010 and of the Group’s loss and cash flows for the six months ended 31 March 2010 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.”*

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## LETTER FROM VEDA CAPITAL

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### (ii) Six months ended 30 September 2010

According to the interim report 2010 for the six months ended 30 September 2010 (“**IR 2010**”), the Group recorded revenue from continuing operations of approximately HK\$178.70 million, representing a decrease of approximately 0.81% from that for six months ended 30 September 2009 of approximately HK\$180.16 million. The Group reported profit attributable to Shareholders of approximately HK\$40.75 million for six months ended 30 September 2010 whilst it reported loss attributable to Shareholder of approximately HK\$158.29 million for the six months ended 30 September 2009. As advised by the Company, the financial improvement was mainly because the Group suffered from loss of approximately HK\$168.15 million from discontinued operation for the six months ended 30 September 2009 whilst the Group recorded profit from discontinued operation of approximately HK\$12.48 million for the six months ended 30 September 2010.

### B. REASONS FOR AND USE OF PROCEEDS FROM THE SUBSCRIPTION

As set out in the Board Letter, The Board considers that the Subscription would enable the Company to enlarge the Company’s capital base and secure funds for future investment in Wafangdian Projects and for future business development. The Board believes that the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The net proceeds of the Subscription will be approximately HK\$74.2 million. As advised by the Company, the Company intends to use approximately 80% of such net proceeds as funds for capital injection for companies specifically established for project development and site formation and ground works for utilities installations in the land reserve in the main district at the coastal economic area of Wafangdian City under the Wafangdian Projects and the remaining 20% for future business development and for the general corporate and working capital requirements of the Group.

We noted from IR 2010 that the Group has recorded cash held at non-bank financial institutions of approximately HK\$0.69 million, bank balances and cash of approximately HK\$129.40 million, aggregate amounts due to customers for contract works, non-controlling Shareholders and associates of approximately HK\$68.47 million as at 30 September 2010.

We noted from AR 2010 that cooperation agreement (the “**Cooperation Agreement**”) was signed between the Group and the Government of Wafangdian City in May 2010 for constructing the main district in the coastal economic area of Wafangdian City (the “**Main District**”) as an ecological low-carbon model district. The total area for construction as an ecological low-carbon model district is approximately 22.4 square kilometers. The Group shall assist in land development in the Main District by facilitating to formulate the overall planning of land use in Wafangdian City and the blueprints of the land use planning, city overall planning, and controls planning and energy planning in the Main District, so as to set an example for the utilisation of ground source energy as a new substitute energy to provide heating for buildings. This will offer new potential for the development of the Group’s businesses and enable the Group to participate in the early stage of land development and the construction of demo property projects of ecological low-carbon centering on the utilisation of ground source energy.

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## LETTER FROM VEDA CAPITAL

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As set out in the Company announcement dated 13 May 2010, pursuant to the Cooperation Agreement, the Company shall carry out site formation and ground works for utilities (e.g. water, electricity and gas, etc.) installations in the 22.4 square kilometers of land reserves in the Main District, and additionally install (a) ground source energy heat pump systems as alternative source of energy for heating/cooling systems; and (b) rain water recycling system as part of the ground works for such site formation. The government of Wafangdian City shall, after completion of the site formation and ground works for utilities installations in the Main District, pay to the Company (a) all the costs incurred or paid by the Company in site formation and utilities installations plus finance charges (the “**Formation Cost**”); (b) a management fee calculated correspondently based on the Formation Cost; and (c) part of the premium (that is, the difference between the selling price and the Formation Cost) gained when the land is sold by public auction.

Having considered (i) the potential funding required for the payment of Formation Cost which would only be repaid by the government of Wafangdian City after completion of the site formation and ground works for utilities installations in the Main District; (ii) the Subscription would enlarge the capital base of the Company; and (iii) the Subscription would enhance the financial flexibility of the Group for its business development in future, we concur with the Directors that the Subscription is in the interest of the Company and the Independent Shareholders as a whole.

### C. THE SUBSCRIPTION

#### Subscription Price

Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe and the Company has agreed to issue and allot 234,704,000 Subscription Shares credited as fully paid at a price of HK\$0.3184 per Subscription Share (the “**Subscription Price**”). The Subscriber has undertaken to and covenanted with the Company that during the Lock-up Period, he shall not and shall procure that none of his nominees or trustees holding in trust for him the Subscription Shares shall sell, transfer or otherwise dispose of (or enter into an agreement to do any of the foregoing) any of the Subscription Shares.

The Subscription Price represents:

- (i) a discount of approximately 16.21% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on 1 December 2010 (the “**Last Trading Day**”), being the date on which the terms of the Subscription were fixed;
- (ii) a discount of approximately 20.0% to the average closing price of HK\$0.398 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 18.15% to the average closing price of HK\$0.389 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day; and

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## LETTER FROM VEDA CAPITAL

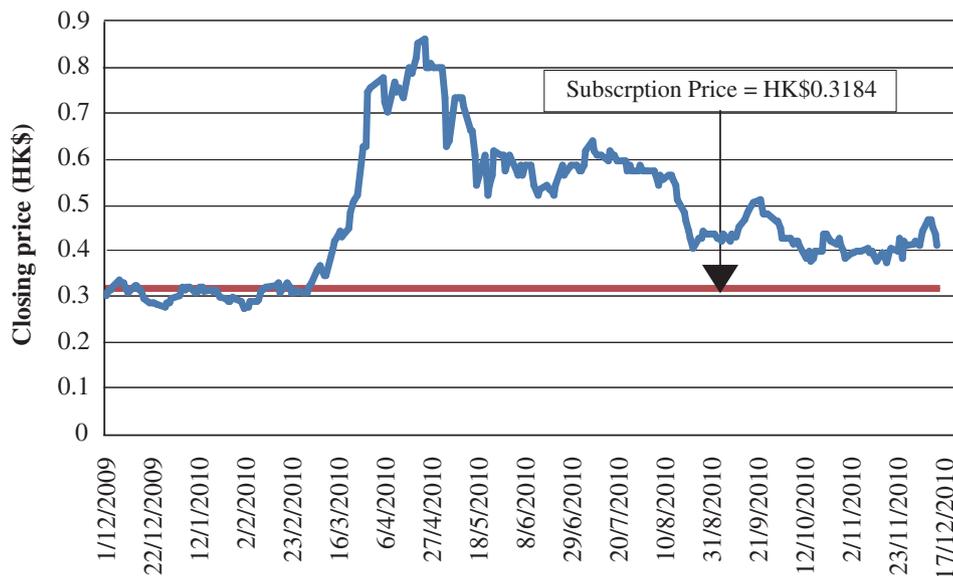
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- (iv) a discount of approximately 21.38% to the closing price of HK\$0.405 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As set out in the Board Letter, the Subscription Price was determined after arm's length negotiations between the Subscriber and the Company, after taking into account of (i) the large size of the Subscription and the substantial amount of money involved; (ii) the Subscriber's lock-up undertaking; (iii) the prevailing market price and the recent low trading volume of the Shares; (iv) the high volatility of the capital market recently; and (v) the requirement of funds for further investment in Wafangdian Projects.

### Historical Share Price Performance

We have reviewed the movements in closing prices of the Shares during the period from 1 December 2009 (being the 12 calendar months period prior to the Last Trading Day) to the Latest Practicable Date (the "Review Period"). The closing prices of the Shares during the Review Period are set out below:



As shown in the above chart, the closing prices of the Shares ranged from the lowest of HK\$0.275 on 2 February 2010 to the highest of HK\$0.83 on 26 April 2010 during the Review Period. The Subscription Price represents a premium of approximately 15.78% over such lowest closing price of the Shares and a discount of approximately 61.64% to such highest closing price of the Shares.

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## LETTER FROM VEDA CAPITAL

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### Comparison with other subscription of new shares

In assessing the fairness of the Subscription Price, we consider comparison with placing/subscription of ordinary shares of other companies listed on the Stock Exchange to provide a more general reference for the Subscription Price. We have identified all placing/subscription of ordinary shares (the “**Comparables**”) conducted by companies that are listed on the Main Board or GEM, which announced their respective placings/subscriptions from 1 November 2010 up to and including 1 December 2010, being the date of the Subscription Agreement, for comparison purposes. As the terms of the Comparables are determined under similar market conditions and sentiments as the Subscription and the Comparables also demonstrated the premium/discount applied on the subscription/placing price to the respective investors including independent third parties of the Comparables in the subscription transactions in the market recently, and therefore we believe that the Comparables may reflect the recent trend of share subscription transaction in the market and demonstrated whether the discounts represent by the Subscription Price to the market price of the Shares is more favorable or not to those offered by the Comparables to their respective investors including independent third parties of the Comparables. As such, we consider the Comparables are fair and representative samples. Details of the Comparables are summarized in the following table:

Date of announcement	Company name (Stock code)	Maximum amount being raised (HK\$ million)	Premium/(discount) of the subscription price over/(to) closing price on last trading day prior to the relevant announcements (%)	Premium/(discount) of the subscription price over/(to) average closing price on the last 5 consecutive trading days prior to the relevant announcements (%)
29/11/2010	China AU Group Holdings Limited (8176)	30.00	0.00	(0.80)
29/11/2010	Sino Dragon New Energy Holdings Limited (395)	59.26	(19.68)	(12.32)
26/11/2010	China Financial Leasing Group Limited (2312)	8.65	(15.18)	(19.22)
24/11/2010	National Investments Fund Limited (1227)	135.10	(17.00)	(19.40)
24/11/2010	Meike International Holdings Limited (953)	297.68	(9.13)	(4.26)
24/11/2010	SW Kingsway Capital Holdings Limited (188)	77.31	(10.20)	(7.50)
23/11/2010	Syscan Technology Holdings Limited (8083)	200.00	(11.11)	(12.09)
23/11/2010	CMMB Vision Holdings Limited (471)	4.73	3.77	0.00
23/11/2010	Heng Tai Consumables Group Limited (197)	460.00	(14.81)	(14.81)
23/11/2010	Asian Citrus Holdings Limited (73)	1,554.00	(17.78)	(11.20)
22/11/2010	Oriental Watch Holdings Limited (398)	219.00	(12.00)	(7.80)

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**LETTER FROM VEDA CAPITAL**

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Date of announcement	Company name (Stock code)	Maximum amount being raised (HK\$ million)	Premium/(discount) of the subscription price over/(to) closing price on last trading day prior to the relevant announcements (%)	Premium/(discount) of the subscription price over/(to) average closing price on the last 5 consecutive trading days prior to the relevant announcements (%)
19/11/2010	Irigo Group Electronics Company Limited (438)	122.29	(7.35)	(8.70)
19/11/2010	Hao Wen Holdings Limited (8019)	32.13	(19.75)	0.00
18/11/2010	National Arts Holdings Limited (8228)	544.50	(15.40)	(11.30)
16/11/2010	China Financial International Investment Limited (721)	74.51	(16.67)	(12.18)
15/11/2010	Seamless Green China (Holdings) Limited (8150)	10.52	(19.48)	(19.90)
10/11/2010	Beijing Yu Sheng Tang Pharmaceutical Group Limited (1141)	320.00	(5.88)	7.74
9/11/2010	China Tontine Wines Group Limited (389)	520.00	(8.77)	(6.98)
9/11/2010	China Agri-products Exchange Limited (149)	150.00	(52.83)	(54.87)
9/11/2010	Sino Land Company Limited (83)	5,139.25	(7.82)	(4.86)
5/11/2010	Hang Lung Properties Limited (101)	11,014.02	(7.00)	(4.41)
4/11/2010	Pearl Oriental Innovation Limited (632)	458.85	(10.26)	(10.14)
4/11/2010	Sino Union Energy Investment Group Limited (346)	139.05	(0.74)	(1.89)
4/11/2010	China Glass Holdings Limited (3300)	373.50	(11.76)	(13.33)
4/11/2010	Mobile Telecom Network (Holdings) Limited (8266)	18.00	(17.70)	(17.08)
3/11/2010	China Yurun Food Group Limited (1068)	1,410.00	(8.81)	(3.66)
3/11/2010	Best Miracle International Limited (8272)	120.10	(15.25)	(12.89)
2/11/2010	Future Bright Holdings Limited (703)	37.84	(10.87)	(3.76)
2/11/2010	New Ocean Energy Holdings Limited (342)	267.00	(6.81)	(6.81)
2/11/2010	New Island Printing Holdings Limited (377)	101.20	(12.55)	(19.86)
1/11/2010	Richfield Group Holdings Limited (183)	172.50	(9.45)	(8.00)
1/11/2010	O-Net Communications (Group) Limited (877)	330.00	(4.84)	(4.35)

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## LETTER FROM VEDA CAPITAL

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	Maximum amount being raised (HK\$ million)	Premium/(discount) of the subscription price over/(to) closing price on last trading day prior to the relevant announcements (%)	Premium/(discount) of the subscription price over/(to) average closing price on the last 5 consecutive trading days prior to the relevant announcements (%)
Maximum		3.77	7.74
Minimum		(52.83)	(54.87)
Mean		(12.28)	(10.21)
Subscription	74.73	(16.20)	(20.00)

*Source:* Website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

As shown in the above table, the premium/discount represented by the share subscription prices to the closing prices of shares of the Comparables on the last trading days prior to the release of the respective announcements ranged from a discount of approximately 52.83% to a premium of approximately 3.77% (the “**LTD Market Range**”). The discount of approximately 16.20% as represented by the Subscription Price to the closing price of the Shares on the Last Trading Day falls within and represents a deeper discount than the mean of the LTD Market Range.

The premium/discount represented by the share subscription prices to the average closing prices of the shares of the Comparables for the five consecutive trading days immediately before the date of relevant announcements of the Comparables ranged from a discount of approximately 54.87% to a premium of approximately 7.74% (the “**5-Day Market Range**”). The discount of approximately 20.0% as represented by the Subscription Price to the average closing prices for the last five trading days including the Last Trading Day falls within and represents a deeper discount than the mean of the 5-Day Market Range.

We are aware that the Subscription Price represents a discount to the Company’s recent Share price within the past few months and the Subscription Price represents a deeper discount than the means of the LTD Market Range and the 5-Day Market Range, however, having considered (i) the size of the subscription money involved; (ii) the potential funding required for the Wafangdian Projects; (iii) the risks and uncertainty associated with Share price movement and the stock market sentiments given the Subscription Shares would be locked up for a year; and (iv) the discounts represent by the Subscription Price fall within the LTD Market Range and the 5-Day Market Range which represent the ranges of premium/discount applied on the subscription/placing prices offered by the Comparables to their respective investors which include independent third parties of the Comparables, and hence the discounts represents by the Subscription Price are not more favorable than those offered by the Comparables to their respective investors including independent third parties of the Comparables notwithstanding the Subscriber is a connected person of the Company, we consider the Subscription Price is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

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## LETTER FROM VEDA CAPITAL

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### **D. POSSIBLE FINANCIAL EFFECTS**

#### **(i) Working capital**

Upon completion of the Subscription, the Group's working capital is expected to be improved by approximately HK\$74.2 million as a result of the cash inflow from the net proceeds from the Subscription.

#### **(ii) Net asset value**

The unaudited consolidated net asset value of the Group was approximately HK\$960.55 million as at 30 September 2010. Upon completion of the Subscription, the Group's capital base is expected to be strengthened by the net proceeds of approximately HK\$74.2 million.

Having considered the enhancement on the working capital and the net assets of the Group upon completion of the Subscription, we consider that the Subscription is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **E. ALTERNATIVES**

We have enquired with the Company and are advised that the Company has generally considered various fund-raising methods, including bank and other debt financing, or equity fund raising such as rights issue. However, these fund-raising exercises tend to take relatively more time to implement as compared to a share subscription. Having assessed the funding needs of the Wafangdian Projects and timing of other alternative fund-raising exercises, the Board believes that the Subscription is a better fund raising alternative for the Group at present and the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In view of the above, we concur with the view of the Directors that fund raising by way of the Subscription is in the interests of the Company and the Independent Shareholders as a whole.

### **F. POTENTIAL DILUTION**

Based on the shareholding structure of the Company as set out in the Board Letter, as at the Latest Practicable Date, 1,456,286,117 Shares were held by the Independent Shareholders, representing approximately 79.55% of the issued share capital of the Company. The shareholding of the existing Independent Shareholders will decrease to approximately 70.52% upon completion of the Subscription.

Having considered that:

- (i) the potential funding required for the payment of Formation Cost which would only be repaid by the government of Wafangdian City after completion of the site formation and ground works for utilities installations in the Main District;

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## LETTER FROM VEDA CAPITAL

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- (ii) the Subscription would enlarge the capital base of the Company;
- (iii) the Subscription would enhance the financial flexibility of the Group for its business development in future;
- (iv) the discounts represent by the Subscription Price fall within the LTD Market Range and the 5-Day Market Range which represent the ranges of premium/discount applied on the subscription/placing prices offered by the Comparables to their respective investors which include independent third parties of the Comparables, and hence the discounts represent by the Subscription Price are not more favorable than those offered by the Comparables to their respective investors including independent third parties of the Comparables notwithstanding the Subscriber is a connected person of the Company; and
- (v) the enhancement on the working capital and the net assets of the Group upon completion of the Subscription;

we consider the dilution effects is acceptable.

### RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, we consider that the terms of the Subscription are normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Subscription is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Subscription.

Yours faithfully,  
For and on behalf of  
**Veda Capital Limited**  
**Hans Wong**                      **Julisa Fong**  
*Chairman*                      *Managing Director*

**1. 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 Group. 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.

**2. DISCLOSURE OF INTERESTS****Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

## (A) Long position in shares and equity derivatives

Name of director	Capacity	Number of issued ordinary shares of US\$0.04 each in the Company held and the capacity		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares			
Ms. Chan Wai Kay, Katherine (Note 1)	Beneficial owner	-	-	30,750,000		
	Interest of spouse	10,074,000	0.55%	-	40,824,000	2.23%
Mr. Wu Shu Min (Note 2)	Beneficial owner	36,505,750	1.99%	28,600,000	65,105,750	3.56%
Mr. Xu Shengheng (Note 3)	Beneficial owner	608,319,000	33.23%	25,350,000		
	Interest of spouse	702,000	0.04%	-	634,371,000	34.65%
Ms. Chan Man Kuen, Laura (Note 4)	Beneficial owner	1,250,000	0.07%	1,500,000	2,750,000	0.15%

## Notes:

- Ms. Chan Wai Kay, Katherine (“**Ms. Chan**”) is interested in 30,750,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (B) of this section. In addition, Mr. Chow Ming Joe, Raymond (“**Mr. Chow**”), spouse of Ms. Chan, holds 10,074,000 shares of the Company (“**Shares**”). Under SFO, Ms. Chan is also deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
- Mr. Wu Shu Min is interested in 36,505,750 Shares and 28,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (B) of this section.
- Mr. Xu Shengheng (“**Mr. Xu**”) is interested in 373,615,000 Shares, 25,350,000 Shares issuable pursuant to exercise of share options of the Company, and 234,704,000 Shares pursuant to the Subscription as required to be notified to the Company and the Stock Exchange pursuant to the SFO. Ms. Luk Hoi Man (“**Ms. Luk**”), is the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in the 702,000 Shares in which Ms. Luk is interested.

4. Ms. Chan Man Kuen, Laura holds 1,250,000 Shares and 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to in part (B) of this section.

**(B) Long position under equity derivatives**

*(i) The Previous Scheme*

On 22 November 2001, the Company conditionally adopted a share option scheme (the “**Previous Scheme**”) for a period of ten years from the date on which the Previous Scheme was adopted. The Previous Scheme became unconditional on 30 November 2001. The Previous Scheme was terminated on 7 August 2010 but the provisions of the Previous Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or as may be required in accordance with the provisions of the Previous Scheme. As at the Latest Practicable Date, the following Directors were interested in the following options under the Previous Scheme:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at the Latest Practicable Date
Ms. Chan Wai Kay, Katherine	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Xu Shengheng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Wu Shu Min	7 March 2002	7 March 2002 to 21 December 2011	1.86	2,500,000
	5 June 2003	5 June 2003 to 21 December 2011	0.312	750,000
	23 June 2009	23 June 2009 to 21 December 2011	0.3304	13,750,000
Mr. Soo Kim Fui, Jeffrey	23 June 2009	23 June 2009 to 21 December 2011	0.3304	8,750,000
Mr. Fu Hui Zhong	23 June 2009	23 June 2009 to 21 December 2011	0.3304	3,750,000
Mr. Jia Wenzeng	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000
Mr. Chow Wan Hoi, Paul	23 June 2009	23 June 2009 to 21 December 2011	0.3304	1,250,000

*(ii) The New Plan*

On 28 July 2010, the Company by a shareholders' resolution, conditionally adopted a new share option scheme (the "New Plan") for a period of ten years from the date on which the New Plan became unconditional. On 7 August 2010, the New Plan became unconditional and effective. As at the Latest Practicable Date, the following Directors were interested in the following options under the New Plan:

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at the Latest Practicable Date
Ms. Chan Wai Kay, Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Wu Shu Min	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Soo Kim Fui, Jeffrey	9 September 2010	9 September 2010 to 8 September 2020	0.426	6,000,000
Mr. Fu Hui Zhong	9 September 2010	9 September 2010 to 8 September 2020	0.426	4,000,000
Ms. Chan Man Kuen, Laura	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
Mr. Chow Wan Hoi, Paul	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

**Long Positions**

Name	Capacity	Interest in shares	Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
China Standard Limited (Note 1)	Beneficial owner	125,000,000	6.83%	-	125,000,000	6.83%
Financial International Holdings Ltd. (Note 2)	Beneficial owner	131,429,000	7.18%	-	131,429,000	7.18%
Grand Concord Group Ltd. (Note 2)	Beneficial owner/ Interest of controlled corporation	131,429,000	7.18%	-	131,429,000	7.18%
Luk Hoi Man (Note 3)	Beneficial owner	702,000	0.04%	-		
	Interest of spouse	608,319,000	33.23%	25,350,000	634,371,000	34.65%

*Notes:*

- These are the consideration shares issued to China Standard Limited pursuant to the acquisition, details of which can be referred to the Company's circular dated 3 October 2007.
- Financial International Holdings Limited is wholly-owned by Grand Concord Group Ltd. Therefore, under SFO, Grand Concord Group Ltd. is deemed to be interested in 131,429,000 Shares.
- Ms. Luk, is the spouse of Mr. Xu. Therefore, under SFO, Ms. Luk is deemed to be interested in 373,615,000 Shares, 25,350,000 Shares issuable pursuant to exercise of share options of the Company and 234,704,000 Shares issuable pursuant to the Subscription. Therefore, under SFO, Ms. Luk is deemed to be interested in 702,000 Shares, 373,615,000 Shares in which Mr. Xu is interested, 25,350,000 underlying share issuable upon the exercise of the share options of the Company, and 234,704,000 Shares issuable pursuant to the Subscription.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### **3. COMPETING INTEREST**

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

### **4. INTEREST IN CONTRACTS AND ASSETS**

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2010, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

### **5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

### **6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

### **7. MATERIAL ADVERSE CHANGE**

Save as disclosed herein, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, being the date to which the latest audited financial statements of the Company were made up.

**8. EXPERT**

Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and/or references to its name in the form and context in which it appears.

The following is the qualification of the expert who has provided its advice and report (as the case may be), which is contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Veda Capital	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Veda Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 March 2010), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. SHARE CAPITAL**

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion are set out as follows:

**As at the Latest Practicable Date**

Authorised share capital:

4,000,000,000 Shares	US\$160,000,000
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**Immediately after Completion**

Authorised share capital:

4,000,000,000 Shares	US\$160,000,000
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Issued paid-up share capital:

1,830,603,117	Shares as at the Latest Practicable Date	US\$73,224,124.68
<u>234,704,000</u>	Subscription Shares	<u>US\$9,388,160.00</u>
<u><u>2,065,307,117</u></u>		<u><u>US\$82,612,284.68</u></u>

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 1301, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual report of the Company for the six months ended 31 March 2010;
- (iii) the Subscription Agreement;
- (iv) the written consent from the expert referred to under paragraph headed "Expert" in this appendix;
- (v) the letter from the Independent Board Committee, the text of which is set out on page 11 in this circular; and
- (vi) the letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 12 to 22 in this circular.

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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 OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of China Ground Source Energy Limited (the “**Company**” together with its subsidiaries, the “**Group**”) will be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Tuesday, 11 January 2011 at 11 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT:**

subject to the fulfillment of the terms and conditions set out in the subscription agreement dated 1 December 2010 (the “**Subscription Agreement**”) entered into between the Company and Mr. Xu Shengheng (the “**Subscriber**”) (a copy of the Subscription Agreement having been produced to the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification) in respect of the subscription of 234,704,000 shares of US\$0.04 each in the capital of the Company (the “**Subscription Shares**”) at a subscription price of HK\$0.3184 each (the “**Subscription**”):

- (i) the Subscription Agreement and the matters contemplated thereby be and are hereby approved, confirmed and ratified;
- (ii) the subscription for the Subscription Shares by the Subscriber be and is hereby approved and the directors of the Company (the “**Directors**”) be and are hereby authorised to allot and issue the Subscription Shares pursuant to the terms of the Subscription Agreement subject to completion of the Subscription Agreement, such Subscription Shares to be issued credited as fully paid and ranking pari passu in all respects with all the existing issued shares of the Company; and

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## NOTICE OF EGM

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- (iii) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and to sign, seal, execute, perfect and deliver all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 21 December 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 member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.
4. As at the date of this notice, the Board comprises Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Soo Kim Fui, Jeffrey as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Chan Man Kuen, Laura, Mr. Jia Wenzeng and Mr. Chow Wan Hoi, Paul as independent non-executive Directors.