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

If you have sold or transferred all your shares in China Ground Source Energy Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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中國地能有限公司
CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES,
REFRESHMENT OF SCHEME LIMIT,
RE-ELECTION OF DIRECTORS,
CHANGE OF COMPANY NAME,
AMENDMENTS TO THE ARTICLES OF ASSOCIATION,
CONTINUING CONNECTED TRANSACTIONS,
AND
NOTICE OF ANNUAL GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

HORAY 好盈

A notice convening an Annual General Meeting of China Ground Source Energy Limited to be held at East Room, Mandarin Oriental Hong Kong, 23rd Floor, 5 Connaught Road, Central, Hong Kong on Thursday, 13 June 2013 at 9:30 a.m. is set out on pages 56 to 62 of this circular.

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

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

13 May 2013

CHARACTERISTICS OF GEM

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

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

“Agreement”	the framework agreement dated 21 March 2013 for the sale and purchase of the Products and the Services made between the Company and CECEP
“Annual General Meeting” or “AGM”	the annual general meeting of the Company to be held at East Room, Mandarin Oriental Hong Kong, 23rd Floor, 5 Connaught Road, Central, Hong Kong on 13 June 2013 at 9:30 a.m.
“Articles of Association”	the Memorandum and Articles of Association of the Company
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are generally open for the transaction of normal business
“CECEP”	China Energy Conservation and Environmental Protection Group* (中國節能環保集團公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CECEP(HK)”	China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited* (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and wholly-owned by CECEP
“Company”	China Ground Source Energy Limited, Shares of which are listed on the GEM
“Companies Law”	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions constituted by the transactions contemplated under the Agreement
“Directors”	directors of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Agreement or 1 May 2013, whichever is the later

DEFINITIONS

“Existing Scheme Limit”	the total number of Shares in respect of which options may be granted pursuant to the Share Option Scheme and any other share option schemes of the Company, not exceeding 10% of the issued share capital of the Company as at the date of passing the relevant resolution to approve the general limit at the annual general meeting of the Company on 10 August 2011
“Existing Shares”	existing ordinary share(s) of US\$0.01 each in the capital of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM as amended, supplemented or otherwise modified from time to time
“General Mandate”	the general mandate to issue Shares of the Company which will be proposed to be granted to the Directors at the AGM
“Group”	the Company and its subsidiaries
“HK\$” and “HK cent(s)”	Hong Kong dollars and cent(s) respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HYY”	Ever Source Science and Technology Development Group Ltd.* (恆有源科技發展集團有限公司), a subsidiary indirectly-owned by the Company as to its 94.58% equity interests
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the transactions under the Agreement and the Proposed Annual Caps relating thereto
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates

DEFINITIONS

“Independent Financial Adviser” or “Hooray Capital Limited”	a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activity, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereto
“JV Company”	a company which will be incorporated and registered in the PRC and named as CECEP Green Construction (Hangzhou) Technology Development Ltd.* (中節能綠建(杭州)科技發展有限公司) pursuant to the JV Contract
“JV Contract”	the joint venture contract made between HYY and Zhejiang CECEP Green Construction Environmental Protection Technology Ltd.* (浙江中節能綠建環保科技有限公司) dated 19 April 2013 for the formation of the JV Company
“Latest Practicable Date”	9 May 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Participants”	any person who satisfies the eligibility criteria under the Share Option Scheme
“PRC”	the People’s Republic of China, which for the purpose of this circular only, excludes Hong Kong, Taiwan and the Macau Special Administrative Region
“Products”	products using “HYY single-well circulation for heat exchange geothermal energy collection technology”, an original innovation of the Company as focus, and using shallow geothermal energy as alternative energy for heating/cooling, including but not limited to, the “HYY ground source energy heat pump environmental system” and the “HYY multi-source distributed energy stations focused on using geothermal energy”
“Proposed Annual Caps”	the proposed annual caps for, in aggregate, the purchases of the Products and the Services by CECEP and its subsidiaries from the Company and its subsidiaries for the period from the Effective Date to 31 December 2015 under the Agreement
“Proposed Change of Company Name”	the proposed change of the name of the Company from “China Ground Source Energy Limited 中國地能有限公司” to “China Ground Source Energy Industry Group Limited 中國地能產業集團有限公司”

DEFINITIONS

“Refreshed Scheme Limit”	the maximum number of Shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option scheme(s) of the Company, being 10% of the Company’s issued share capital as at the date of passing the relevant resolution to approve the refreshment of scheme limit at the AGM
“Repurchases Code”	the Hong Kong Code on Share Repurchases
“Repurchase Mandate”	the general mandate to repurchase Shares of the Company which will be proposed to be granted to the Directors at the AGM
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Share Option Scheme”	the share option scheme adopted by the Company pursuant to an ordinary resolution of the Company passed on 28 July 2010
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America
“%”	percent

LETTER FROM THE BOARD



中國地能有限公司
CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

Executive Directors:

Mr. Zheng Qiyu
Ms. Chan Wai Kay, Katherine
Mr. Xu Shengheng
Mr. Zang Yiran

Non-executive Directors:

Ms. Wu Xiaohua
Ms. Xu Genghong

Independent non-executive Directors:

Mr. Hu Zhaoguang
Mr. Jia Wenzeng
Mr. Wu Desheng

Registered office:

Floor 4, Willow House
Cricket Square
P.O. Box 2804
Grand Cayman KY1-1112
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

13 May 2013

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

Dear Sir or Madam,

**GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES,
REFRESHMENT OF SCHEME LIMIT,
RE-ELECTION OF DIRECTORS,
CHANGE OF COMPANY NAME,
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,
CONTINUING CONNECTED TRANSACTIONS,
AND
NOTICE OF ANNUAL GENERAL MEETING**

INTRODUCTION

The purpose of this circular, among other matters, is to provide you with the relevant information regarding the granting of the General Mandate and the Repurchase Mandate, the refreshment of scheme limit, the re-election of Directors, the Proposed Change of Company Name, the amendments to the Articles of Association, the Continuing Connected Transactions, and to give you the notice of AGM.

LETTER FROM THE BOARD

GENERAL MANDATES TO REPURCHASE AND ISSUE SHARES

At the annual general meeting of the Company held on 26 September 2012, ordinary resolutions were passed to grant to the Directors general unconditional mandate (i) to repurchase Shares of the Company on GEM or on any other exchange on which the Shares have been or may be listed and recognised for this purpose by the SFC and the Stock Exchange under the Repurchases Code, which does not exceed 10 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing the relevant resolution; and (ii) to allot, issue and otherwise deal with Shares of the Company up to the limit of 20 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution. 12,480,000 Shares have been repurchased pursuant to the repurchase mandate granted on 26 September 2012.

These general mandates will lapse at the conclusion of the forthcoming Annual General Meeting of the Company which will be held at East Room, Mandarin Oriental Hong Kong, 23rd Floor, 5 Connaught Road, Central, Hong Kong at 9:30 a.m. on 13 June 2013. At the AGM, ordinary resolutions will be proposed:

- (i) to grant the Repurchase Mandate to the Directors to enable them to repurchase Shares of the Company on GEM or on any other exchange on which the Shares have been or may be listed and recognised for this purpose by the SFC and the Stock Exchange under the Repurchases Code, which does not exceed 10 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution to grant the Repurchase Mandate;
- (ii) to grant the General Mandate to the Directors to enable them to allot, issue and otherwise deal with Shares of the Company up to the limit of 20 per cent. of the aggregate nominal value of the issued share capital of the Company on the date of passing such resolution to grant the General Mandate, representing 580,565,423 Shares which is assumed that no Shares are issued or repurchased by the Company from the Latest Practicable Date up to the AGM; and
- (iii) to increase the number of Shares to be allotted, issued and dealt with under the General Mandate by an additional number representing such number of Shares repurchased under the Repurchase Mandate.

As at the Latest Practicable Date, the authorised share capital of the Company was US\$160,000,000 divided into 16,000,000,000 Shares, of which 2,902,827,117 Shares were in issue. There were 355,992,000 outstanding options under the share option schemes, to subscribe up to 355,992,000 Shares.

On the basis of 2,902,827,117 existing Shares in issue as at the Latest Practicable Date and assuming that no Shares are repurchased or further issued before the AGM, the Directors would be authorised to repurchase up to 290,282,711 Shares which represent 10 per cent. of the 2,902,827,117 existing Shares in issue as at the Latest Practicable Date.

LETTER FROM THE BOARD

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

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

REFRESHMENT OF THE SCHEME LIMIT

At present, the Company has a Share Option Scheme which was conditionally adopted on 28 July 2010 and became unconditional on 7 August 2010. Apart from the Share Option Scheme, as at the Latest Practicable Date, the Company did not have any other share option schemes.

Under the GEM Listing Rules and the Share Option Scheme:

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

Under the Existing Scheme Limit, a total of 206,530,711 options can be granted. On 6 February 2013, there were 200,000,000 options granted under the Share Option Scheme and subsequently a total of 190,500,000 share options were accepted by the grantees. No options has lapsed or cancelled since granting. As at the Latest Practicable Date, these options are still outstanding and exercisable. In addition to 165,492,000 options previously granted under the Share Option Scheme, therefore, as at the Latest Practicable Date, there were a total of 355,992,000 outstanding and unexercised options granted under the Share Option Scheme, representing approximately 12.26% of the existing issued share capital of the Company. Under the Existing Scheme Limit, there are still 16,030,711 options that can be granted.

LETTER FROM THE BOARD

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

Assuming that no Shares are issued or repurchased by the Company from the Latest Practicable Date up to the AGM, the Company will have 2,902,827,117 Shares in issue as at the date of the AGM. The Refreshed Scheme Limit, if approved by the Shareholders at the AGM, will allow the Company to issue, upon exercise of options under the Share Option Scheme, a maximum of 290,282,711 Shares, representing 10% of the issued share capital of the Company as at the date of approval of the Refreshed Scheme Limit.

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

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

RE-ELECTION OF DIRECTORS

In accordance with Article 87 of the Articles of Association of the Company, Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng and Mr. Jia Wenzeng shall retire by rotation at the AGM and who, being eligible, will offer themselves for re-election. Details of Ms. Chan Wai Kay Katherine, Mr. Xu Shengheng and Mr. Jia Wenzeng are set out in Appendix II to this circular.

PROPOSED CHANGE OF COMPANY NAME

On 15 April 2012, the Company announced the Proposed Change of Company Name.

The Board proposes to change the name of the Company from “China Ground Source Energy Limited 中國地能有限公司” to “China Ground Source Energy Industry Group Limited 中國地能產業集團有限公司”. The Board considers that the Proposed Change of Company Name will put emphasis on the principal business that is carried by the Company and its subsidiaries, and the characteristics of the industry in which the Group operates its business. The industrialisation development of the Group’s original innovative technology is the core assurance of this emerging industry of application of shallow geothermal energy as alternative energy for heating/cooling. The Board believes that the Proposed Change of Company Name is in the best interests of the Company and the Shareholders as a whole.

The stock short name of the shares of the Company will remain “CG SOURCE ENGY” in English and “中國地能” in Chinese.

LETTER FROM THE BOARD

The Proposed Change of Company Name is subject to (i) the passing of a special resolution by the Shareholders at the AGM to approve the Proposed Change of Company Name; and (ii) the approval by the Registrar of Companies in the Cayman Islands. The Proposed Change of Company Name will take effect from the date on which the new English and Chinese names of the Company are entered on the register of companies maintained by the Registrar of Companies in the Cayman Islands. The Company will carry out the necessary filing procedures as required by the Registrar of Companies in Hong Kong and the Cayman Islands when the Proposed Change of Company Name becomes effective.

Upon the Proposed Change of Company Name becoming effective, the existing name of the Company will no longer be used.

Further announcement(s) will be made by the Company to inform the Shareholders of the effective date of the Proposed Change of Company Name.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND ADOPTION OF THE AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

In order to bring the constitution of the Company in line with certain amendments made to the GEM Listing Rules, to incorporate certain housekeeping amendments and to consolidate the proposed amendments and all previous amendments made to the Articles of Association, the Board proposed to put forward to the Shareholders for approval at the AGM by way of special resolutions to amend the Articles of Association and to adopt the amended and restated Memorandum and Articles of Association.

A summary of the principal amendments to the Articles of Association is set out in Appendix III to this circular. The proposed amendments to the existing Articles of Association and adoption of the amended and restated Memorandum and Articles of Association are subject to the approval of the Shareholders by way of passing special resolutions at the AGM.

Copy of the amended and restated Memorandum and Articles of Association (both in English and Chinese) will be available for inspection at 5-7th Floors, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong during normal business hours on any Business Day for the period from the date of this circular up to and including the date of the AGM. Such copy will also be available for inspection at the AGM. Shareholders are advised that the Chinese translation of the amended and restated Memorandum and Articles of Association is provided for reference only. In case of any inconsistency, the English version shall prevail.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 21 March 2013 in relation to the Company's entering into the Agreement with CECEP whereby CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the Products and the Services for the term commencing from the Effective Date to 31 December 2015. The Proposed Annual Caps for the transactions contemplated thereunder shall not be more than the amounts prescribed pursuant to the Agreement.

As at the Latest Practicable Date, CECEP (through its wholly-owned subsidiary CECEP (HK)) is holding 29.28% issued share capital of the Company and thus a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Based on the Proposed Annual Caps, the Continuing Connected Transactions, when aggregated, are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Company will seek the Independent Shareholders' approval for the Agreement and the Proposed Annual Caps for the Continuing Connected Transactions at the AGM.

The Company provides you with information necessary in this circular to enable you to make an informed decision on whether to vote for or against the ordinary resolutions to be proposed at the AGM relating to the Agreement and the Proposed Annual Caps. This circular, provides, among other things, (i) the details of the Agreement; (ii) the letter of the Independent Board Committee to the Independent Shareholders; and (iii) the letter from the Independent Financial Adviser to both the Independent Board Committee and the Independent Shareholders.

THE AGREEMENT

Date

21 March 2013

Parties:

- (1) the Company (as vendor); and
- (2) CECEP (as purchaser)

CECEP is a company incorporated with limited liability in the PRC and is principally engaged in research and development of energy conservation, environmental protection and new energy technology, investments in projects and construction operation.

LETTER FROM THE BOARD

Term

For a period commencing from the Effective Date to 31 December 2015.

Subject matter

The Continuing Connected Transactions consist of the sale of the Products by the Group to CECEP (or to any of its subsidiaries), and the provision of the Services by the Group to CECEP (or to any of its subsidiaries) for the term of the Agreement. The Products refer to an original innovation of the Company which utilizing shallow geothermal energy as alternative energy for heating or cooling, including but not limited to, the “HYY geothermal energy heat pump environmental system” and the “HYY distributed multi-source energy stations focused on using geothermal energy”. The Services refer to the operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products, which is essential to support the operations of the Products. The Products are intended for CECEP’s (or its subsidiaries’) own use.

Although both CECEP and the Group are carrying on businesses related to energy-saving technology, the Board considers that there are vital differences between the businesses of the Group and that of CECEP. The Group is principally engaged in the businesses of research and development and promotion of using geothermal energy as alternative energy for heating/cooling. Solely for the purpose of promoting the use of geothermal energy as aforesaid, the Company also engages in construction of the demonstration zone with buildings implemented with the Group’s geothermal energy system as alternative energy for heating/cooling. So, the Board considers that property development is not the principal business of the Group. The Group’s major customers are property developers and owners similar to CECEP and its subsidiaries which consider to implement the Group’s geothermal energy system as alternative energy for heating/cooling in their buildings.

On the other hand, CECEP carries on the businesses of development and sale of energy conservation and environmental protection systems with the use of solar energy, wind energy and energy-saving building materials but excluding geothermal energy. CECEP also develops and constructs demonstration buildings which are installed with its energy conservation and environmental protection systems for sale. Pursuant to the Agreement, the Group will install the Products in the demonstration buildings developed by CECEP and its subsidiaries.

Since the selling of the Products to CECEP and its subsidiaries is in line with the Group’s principal business in development and sale of geothermal energy system as alternative energy for heating/cooling, the Board considers that the selling of the Products to CECEP and its subsidiaries will increase the Group’s revenue and will not cause any competition between CECEP’s business and the Group’s business.

As the Agreement is only a framework agreement between the Company and CECEP and pursuant to which the payment terms for the definitive contracts is to be determined after arm’s length negotiations between the parties and having considered the market conditions, and in accordance with the general credit policy of the Group. The Group generally grants credit period of 30 to 180 days to its customers and the payment is usually made by cash. The normal payment and credit policy of the Group will also apply to the transactions with CECEP and its subsidiaries.

LETTER FROM THE BOARD

Condition Precedent

The taking effect of the Agreement is conditional upon the Independent Shareholders' approval of the Agreement, the transactions contemplated thereunder, and the Proposed Annual Caps for the Continuing Connected Transactions at the AGM.

If the above condition is not fulfilled on or before 31 August 2013 (or such later date as may be agreed between the parties), the Agreement and all rights and obligations thereunder will be terminated, and no party shall have any claim against the other party except in respect of any antecedent breach.

Proposed Annual Caps

The following table sets out the Proposed Annual Caps:

	From Effective Date to 31 December 2013 (RMB)	From 1 January 2014 to 31 December 2014 (RMB)	From 1 January 2015 to 31 December 2015 (RMB)
Sale and purchase of the Products	80,000,000	150,000,000	200,000,000
Sale and purchase of the Services	7,000,000	17,000,000	22,000,000

The Proposed Annual Caps were determined after taking into account of the following:

- (i) the current price of the Products and Services;
- (ii) the historical sales record of the Group's existing products and services purchased by independent customers similar to the Products and Services to be purchased by CECEP or its subsidiaries
- (iii) the audited consolidated revenue of the Group for the nine months ended 31 December 2012 which was approximately HK\$230,990,000 generated from other independent customers of the Group who would place the comparable amount of the Products and Service;
- (iv) the expected demand for the Products and Services from CECEP and its subsidiaries for each of the three years ending 31 December 2015 after considering the list of properties which are expected to be developed by CECEP and its subsidiaries in each calendar year from 2013 to 31 December 2015 and have potential to be installed with the Products and the operation and business development plan of CECEP and its subsidiaries;
- (v) the existing and the anticipated production capacity in the coming years of the Group and its subsidiaries for the Products and the Services; and
- (vi) the business development plans of the Group.

LETTER FROM THE BOARD

The Group has not had any transactions with CECEP similar to the Continuing Connected Transactions. Having taken into account the above considerations on the projected sales of Products and provision of Services to CECEP, which is within the historical consolidated revenue of the Group, the Directors consider that the Proposed Annual Caps are fair and reasonable for the Company and its Shareholders as a whole.

Basis of the selling price of the Products and the Services

The actual selling price of the Products and the Services is to be determined after arm's length negotiations between the parties and having considered the market conditions, and in accordance with the pricing policy of the Group.

According to the pricing policy of the Group, the selling price is principally based on the area that the Products required to cover and the cost of sales including labour and tax payable etc., subject to a number of other factors such as constructional complexity involved (including but not limited to, geological technical difficulties and complexity) and specific specifications required and is further subject to the provisions set out in the Information of Construction and Engineering Costs issued by the local government where the project is to be carried out.

The Company has been principally engaging in the businesses similar as to the Continuing Connected Transactions since 2008 with independent parties. The pricing terms of the Products and Services will be in line with the prevailing average gross margins with independent customers, and in any event would not be lower than the minimum gross margin recorded with independent customers under normal circumstances, and would be made reference to the provisions set out in the Information of Construction and Engineering Costs of Beijing official pricing guidelines.

The Company will assess the contracts with independent customers periodically for products of the types similar to the Products and formulate a pricing guideline (based on the average selling price and prevailing average gross profit margin to be determined with consideration of various factors including but not limited to labour cost, equipment costs, etc. for the products which are similar to the Products and have been sold to independent customers of the Group in the preceding half-year period) and regular briefings and trainings will be provided to its employees who are in charge of reviewing, calculating or approving the selling price offered and the contracts with CECEP to ensure that the actual transactions under the Agreement will be conducted on normal commercial terms or on terms no less favourable to the Group than terms available to the independent customers and in line with the average gross profit margin of the Company.

Having considered that (i) the terms of Products and Services offered by the Group to the CECEP will be no less favorable to the Group than terms offered to independent third parties; and (ii) the pricing policy for Products and Services that has been practicing by the Group is made referenced to an official regulatory guideline, which has been and will be consistently applied for future transactions contemplated under the Agreement, the Directors consider that the terms of the Agreement are on normal commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Reasons for and Benefits of Entering into the Agreement

The Company is an investment holding company principally engaged in environmental protection and new energy business with marketing modality of pursuing integrated services including investment, system installation and operation in promoting the shallow geothermal energy as alternative energy for heating/cooling. The entering into of the Agreement will enable the Group to expand its customer base and enhance the selling of its products and services. Further, the entering into of the Agreement can enhance the business cooperation between the Group and CECEP.

The Board has approved the Agreement and none of the Directors has any material interest in the transactions contemplated thereunder. Mr. Zheng Qiyu, Mr. Zang Yiran, Ms. Wu Xiaohua and Ms. Xu Genghong voluntarily abstained from voting at the related Board meeting to approve the Agreement by virtue of being the Directors nominated by CECEP(HK).

The Agreement was entered into by the respective parties in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors whose view is set out on page 17 upon obtaining the advice of the Independent Financial Adviser) consider that:

- (a) the terms and conditions of the Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms that are fair and reasonable;
- (b) the Proposed Annual Caps in respect of the Agreement as referred to above are fair and reasonable;
- (c) the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole; and
- (d) the Agreement does not have any disadvantages to the Company.

GEM Listing Rules Implication

As at the Latest Practicable Date, CECEP (through its wholly-owned subsidiary CECEP (HK)) is holding 29.28% issued share capital of the Company and thus a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Based on the Proposed Annual Caps, as at least one of the percentage ratios applicable to the Agreement exceeds 5%, the Continuing Connected Transactions, when aggregated, are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Company will seek the Independent Shareholders' approval for the Agreement and the Proposed Annual Caps for the Continuing Connected Transactions at the AGM.

LETTER FROM THE BOARD

CECEP (HK) and its associates will abstain from voting on the resolutions approving the Agreement and the related Proposed Annual Caps which will be proposed at the AGM. To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, none of the Shareholders (excluding CECEP (HK)) who are required to abstain from voting on the resolutions approving the Agreement and the related Proposed Annual Caps at the AGM.

ANNUAL GENERAL MEETING

A notice convening the AGM is set out on pages 56 to 62 of this circular, ordinary resolutions will be proposed to approve the General Mandate, the Repurchase Mandate, the Refreshed Scheme Limit, the re-election of Directors, the Continuing Connected Transactions, and special resolutions will be proposed to approve the Proposed Change of the Company Name and the proposed amendments to the Articles of Association and adoption of the amended and restated Memorandum and Articles of Association.

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

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

RESPONSIBILITY STATEMENT

This circular, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors, having made all reasonable 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 believe that an exercise of the General Mandate may enable the Company to take advantage of market conditions to raise additional capital for the Company and the Repurchase Mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

LETTER FROM THE BOARD

The Directors consider that the approval of the Repurchase Mandate, the General Mandate, the Refreshed Scheme Limit, the re-election of the Directors, the proposed change of the Company name, the proposed amendments to the Articles of Association and the Continuing Connected Transactions at the AGM are in the best interest of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the AGM.

In relation to the Continuing Connected Transaction, an independent board committee, comprising the independent non-executive Directors, has been established to consider the terms of the Agreement and advise the Independent Shareholders as to whether the transactions contemplated thereunder the Agreement was entered into in the ordinary and usual course of business and whether the terms of the Agreement were agreed on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Hooray Capital Limited, an independent financial adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the transactions contemplated thereunder the Agreement was entered into in the ordinary and usual course of business and whether the terms were agreed on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 17 of this circular. A letter from Hooray Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 27 of this circular.

The Board considers that the terms of the Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. So the Board recommends the Shareholders to vote in favour of the relevant resolutions to be proposed at the AGM.

Yours faithfully,
For and on behalf of
CHINA GROUND SOURCE ENERGY LIMITED
Zheng Qiyu
Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE



中國地能有限公司
CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

13 May 2013

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the transactions under the Agreement and the annual caps relating thereto, details of which are set out in the letter from the Board in the circular dated 13 May 2013 (the “**Circular**”) to the Shareholders, of which this letter forms a part. Terms defined in the Circular shall have the same meaning when used in this letter unless otherwise requires.

Taken into account the advice of Hooray Capital Limited contained in its letter set out on pages 18 to 27 of the Circular, we consider that the transactions under the Agreement and the Proposed Annual Caps relating thereto are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, in the ordinary course of business and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the transactions under the Agreement and the annual caps relating thereto.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Mr. Jia Wenzeng

Independent non-executive Director

Mr. Wu Desheng

Independent non-executive Director

Mr. Hu Zhaoguang

Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from Hooray Capital Limited in connection with the Continuing Connected Transactions and the Proposed Annual Caps contemplated thereunder which has been prepared for the purpose of inclusion in this circular.

HOORAY 好盈

*To the Independent Board Committee
and the Independent Shareholders*

13 May 2013

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the continuing connected transactions contemplated under the Agreement in relation to the sale and purchase of the Products and provision of the Services between the Group and the CECEP and the Proposed Annual Caps thereof, details of which are set out in the letter from the Board contained in the circular dated 13 May 2013 to the Shareholders (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined elsewhere in the Circular unless the context requires otherwise.

On 21 March 2013, the Company entered into the Agreement in relation to the sale and purchase of the Products and provision of the Services for a period commencing from the Effective Date to 31 December 2015. As at the date of this letter, CECEP (HK) is a wholly owned subsidiary of CECEP, and is a substantial Shareholder holding 850,000,000 Shares, representing approximately 29.28% issued share capital of the Company and thus a connected person of the Company pursuant to the GEM Listing Rules. Accordingly, the transactions contemplated under the Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules. As one or more of the applicable percentage ratios for the Proposed Annual Caps calculated under Rule 19.07 of the GEM Listing Rules exceed(s) 5%, the transactions contemplated under the Agreement are subject to reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

As CECEP is materially interested in the Agreement, CECEP (HK) and its associates shall abstain from voting in relation to the approval of the Agreement and the Proposed Annual Caps at the AGM.

好盈融資有限公司

Hooray Capital Limited

香港蜆殼街18號嘉昌商業中心21樓02-03室

Unit 2102-03, 21/F, Kingsfield Centre, 18 Shell Street, Hong Kong

Tel. 電話 : (852) 2802 2816

Fax. 傳真 : (852) 3007 8501

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang, has been established to advise the Independent Shareholders in respect of the fairness and reasonableness of the Continuing Connected Transactions and the Proposed Annual Caps. We, Hooray Capital Limited, have been appointed to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the Continuing Connected Transactions are conducted in the ordinary and usual course of business and the terms of which and the Proposed Annual Caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favor of the Continuing Connected Transactions and the Proposed Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the AGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CONTINUING CONNECTED TRANSACTIONS AND PROPOSED ANNUAL CAPS:

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Continuing Connected Transactions and the Proposed Annual Caps, we have considered the following principal factors and reasons:

I. Background of the Group, background of CECEP and reasons for the Continuing Connected Transactions

The Group is principally engaged in the scientific research on and development of using geothermal energy as an alternative energy for heating or cooling, and commercialization of such applications. The Group has a scientific research center in Beijing and a 49% owned manufacturing center in Beijing. The Group aims to focus on technological research and commercialization of the results, and apply its commercialized products to existing building owners and general construction contractors for their business in, inter alia, design, planning and construction of residential or commercial properties. The Group has properties development business but the main objective of is to construct demonstration units to promote the applications of geothermal energy. It is not the current business objectives of the Group to solely engage in the design, planning and construction of residential or commercial properties in future.

CECEP is a PRC state owned enterprise, together with its subsidiaries and associates, principally engaging in the business of: 1) energy conservation and new energy development; 2) environmental protection and health industry; and 3) utilization of new materials and resources. The Company has confirmed that, save and except its relationship in the Company, CECEP has not engaged in business related to the research and development of geothermal energy.

CECEP would utilize its business focus mentioned above and applied into, inter alia, design, planning and construction of residential and commercial properties. The Products would form part of the utilities that would be made available to the end user of the properties. Subject to the prevailing geographical conditions, and the requirements set out and agreed with its clients, CECEP would apply various technologies to achieve its goal of energy conservation. The strength of the Group in geothermal energy represents one of the prime energy conservation methods that CECEP could apply to achieve its business objective, which also falls into the scope of business of the Group. In relation to the Products and Services, the Company regards CECEP as its routine customers who are engaging in, inter alia, properties construction.

The Continuing Connected Transactions consists of the sale of the Products by the Group to CECEP (or to any of its subsidiaries), and the provision of the Services by the Group to CECEP (or to any of its subsidiaries). The Products represents an original innovation of the Company which utilizing shallow geothermal energy as alternative energy for heating or cooling, including but not limited to, the “HYY geothermal energy heat pump environmental system” and the “HYY distributed multi-source energy stations focused on using geothermal energy”. Services represent operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products, which is essential to support the operations of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Products. The Products are intended for CECEP's (or its subsidiaries') own use. In view of the close relationship between the Products and Services, it is our opinion to evaluate the sale of Products and provision of Services to CECEP in aggregate.

The taking effect of the Agreement is conditional upon the Independent Shareholders' approval of the Agreement, the transactions contemplated thereunder, and the Proposed Annual Caps for the Continuing Connected Transactions at the AGM. If such condition is not fulfilled on or before 31 August 2013 (or such later date as may be agreed between the Company and CECEP), the Agreement and all rights and obligations thereunder will be terminated, and no party shall have any claim against the other party except in respect of any antecedent breach.

Having considered that: i) the nature of the Continuing Connected Transactions are in the ordinary and usual course of business of the Group; ii) it is not the current business objectives of the Group to solely engage in the design, planning and construction of residential or commercial properties in future, where competition between the Group and CECEP is not expected based on current business models of the Group and CECEP; iii) the Group can utilize the Continuing Connected Transactions to serve as its references for its other sales of the Products and the provision of the Services; iv) the Continuing Connected Transactions could develop and expand the market share of the Group in the field of advance energy conservation; v) the Group can strengthen its collaboration with CECEP in order to promote the advantages of geothermal energy over other energy conservation technologies in applicable cases; and vi) the Continuing Connected Transactions represents additional revenue to the Group, we consider that the Continuing Connected Transactions are commercial transactions conducted in the ordinary and usual course of business of the Group.

II. Terms of the Continuing Connected Transactions

The Continuing Connected Transactions represent the sale of the Products by the Group to CECEP (or to any of its subsidiaries) and the provision of the Services provided by the Group to CECEP (or to any of its subsidiaries), of which is related to the Products. Pursuant to the Agreement, the actual selling prices of the Products and the Services is to be determined after arm's length negotiations between the parties and having considered the market conditions, made reference to the information set out in the "Information of Construction and Engineering Costs of Beijing" (北京市工程造價信息) (which can be found in <http://data.zhaozhengfu.cn/82966.html>) in relation to the Products, which shall be fair and reasonable for the Company and its Shareholders as a whole. As there is no limitation to the sale of the Products in terms of jurisdiction, we are in the opinion that the employment of Beijing's standard, which is authoritative, as a general guideline is on normal commercial terms that is fair and reasonable.

Information of Construction and Engineering Costs of Beijing is a guideline issued by Beijing Municipal Construction and Engineering Bureau (北京市造價工程管理處), and is subject to updates up to 12 times a year. It covers approximately 12,000 items of raw materials including cement, steel products and plantations. As mentioned herein, in view there is no specific delivery locale for the Products, we believe Information of Construction and Engineering Costs of Beijing is a fair reference for the Continuing Connected Transactions. The Group also applies Information of Construction and Engineering Costs of Beijing as it reference to independent customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Agreement is a framework agreement which sets out the principles upon which detailed terms of the transactions are to be determined between the parties. Pursuant to the Agreement, the parties shall enter into definitive agreements from time to time for detailed terms regarding the sale and purchases of the Products and the provision of the Services. The relevant considerations will not be less than the average price at which the Products and the Services are sold and provided by the Group to any third parties.

In relation to the pricing policy of the Group, we have enquired with the management of the Company and was reported that the selling price is principally based on the area that the Products required to cover and the production costs required to manufacturer, subject to a number of other factors such as constructional complexity involved (including but not limited to, geological technical difficulties and complexity) and specific specifications required and is further made reference to the provisions set out in the Information of Construction and Engineering Costs of Beijing.

The Company has been principally engaging in the businesses similar as to the Continuing Connected Transactions since 2008 with independent parties. We have randomly collected 4 previous transactions of the Group which are similar as to the Continuing Connected Transactions, and has gone through the pricing procedures with the Company. The 4 previous transactions we reviewed include comprehensive contracts, indicating the specific requirements and expectations set out by each independent customer. The management of the Company also provided their internal budget worksheets for each contract, which included the breakdowns of each expected items of the Products, and indicate each of the Continuing Connected Transactions will follow such manner.

The management of the Company also indicated that the pricing terms of the Products and Services would be in line with the prevailing average gross margins with independent customers, and in any event would not be lower than the minimum gross margin recorded with independent customers under normal circumstances, and would be made reference to the provisions set out in the Information of Construction and Engineering Costs of Beijing.

Furthermore, the management of the Company indicated that the Company has regular briefings and trainings to its employees who are in charge of reviewing, calculating or approving the prices of the Products and Services to ensure that the actual transactions under the Agreement will be conducted on normal commercial terms or on terms no less favourable than terms made to the independent customers and in line with the average gross profit margin of the Company as indicated above. The management of the Company indicated that they will conduct bi-annual review of the business of the Group including Continuing Connected Transactions, which will be corresponding to the preparation of the interim and annual consolidated results of the Group. While factoring in other relevant factors, inter alia, prevailing labour cost and equipment costs, the purpose of reviewing is to set up the average gross profit margin for the Products which serves as the indicator to the employees who are in charge of reviewing, calculating or approving the prices of the Products and Services. We are satisfied to the measure put in by the management of the Company to ensure future operations to comply with their intentions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) the terms of Products and Services offered by the Group to the CECEP will be no less favorable than terms offered to independent third parties; (ii) the pricing policy for Products and Services that has been practicing by the Group is made reference to Beijing's guideline, which has been and would be consistently applied for future transactions contemplated under the Agreement with CECEP; (iii) the Company has implemented rigorous scheme to ensure the responsible staff comply with the pricing guidelines as stipulated herein; and (iv) the terms of the Agreement would be on normal commercial terms that are fair and reasonable, we consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

III. Bases of the Proposed Annual Caps

The following table sets out the proposed annual caps for, in aggregate for the purchases of the Products by CECEP and its subsidiaries and the provision of the Services to CECEP for the period from the Effective Date to 31 December 2015:

	From Effective Date to 31 December 2013 (RMB)	From 1 January 2014 to 31 December 2014 (RMB)	From 1 January 2015 to 31 December 2015 (RMB)
Sale and purchase of the Products	80,000,000	150,000,000	200,000,000
Provision of the Services	7,000,000	17,000,000	22,000,000

Pursuant to our understanding with the management of the Company, the Proposed Annual Caps for the Agreement for the period from the Effective Date to 31 December 2015 were determined after taking into account of the following:

- (i) the current price of the Products and Services;
- (ii) the historical sales record of the Group's existing products and services purchased by independent customers similar to the Products and Services to be purchased by CECEP or its subsidiaries;
- (iii) the audited consolidated revenue of the Group for the nine months ended 31 December 2012 which was approximately HK\$230,990,000 generated from other independent customers of the Group who would place the comparable amount of the Products and Service;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the expected demand for the Products and Services from CECEP and its subsidiaries for each of the three years ending 31 December 2015 after considering the operation and development plan of CECEP and its subsidiaries in each calendar year from 2013 to 2015, and have potential to be installed with the Products and the operation and business development plan of CECEP and its subsidiaries;
- (v) the expected supply of the Products and Services from the Group and its subsidiaries; and
- (vi) the business development plans of the Group.

The Group has not conducted any transactions with CECEP similar as to the Continuing Connected Transactions. As the Products and the Services are similar as to the existing products and services provided by the Group to independent customers, we have made reference to the audited consolidated revenue of the Group for the nine months ended 31 December 2012, and the audited consolidated revenue of the Group for the year ended 31 March 2012, and review the potential demand from CECEP:

i) Historical Sales of the Group:

According to the audited consolidated revenue of the Group for the nine months ended 31 December 2012, the Group recorded revenue of approximately HK\$230,990,000. As the AGM is expected to take place on 13 June 2013, there are approximately 6 months for the annual cap from the Effective Date to 31 December 2013. The proposed aggregate annual cap of Products and Services for such period of RMB87,000,000 (or HK\$108,750,000 assuming the exchange rate of RMB1 = HK\$1.25) is well within the historical track records of the Company.

According to the audited consolidated revenue of the Group for the year ended 31 March 2012, the Group recorded revenue of approximately HK\$318,079,000. The proposed aggregate annual cap of Products and Services for the first full year, being from 1 January 2014 to 31 December 2014, of RMB167,000,000 (or HK\$208,750,000 assuming the exchange rate of RMB1 = HK\$1.25), is well within the historical track records of the Company.

The proposed aggregate annual cap of Products and Services from 1 January 2015 to 31 December 2015 of RMB 222,000,000 represents a year over year increase of approximately 32.9% from the previous years.

Based on the historical track records of the Company of supplying the Products and Services to independent customers, and the year over year increment for the period from 1 January 2015 to 31 December 2015, we believe the Proposed Annual Caps are reasonable and are within the manageable scope for the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

ii) Order indication from CECEP:

Pursuant to the indication given by the management of the Company, CECEP has expressed interests to employ the Products as follows:

Period	Approximate Number of Projects	Estimated Area (meter square)
From the Effective Date to 31 December 2013	8	242,700
From 1 January 2014 to 31 December 2014	10	452,000
From 1 January 2015 to 31 December 2015	15	582,000

Pursuant to the above results, the Proposed Annual Caps for the respective years are in consistent with the indicative order provided by CECEP at averaging RMB330 per square meter. We have discussed with the management of the Company and understand that, as reported in our letter, the average selling price for the Products is RMB330 per square meter, subject to the prevailing geographical conditions, and the requirements set out and agreed with its clients.

We have reviewed 4 additional samples of the Group and conclude that the Company has been generally following the principle of the selling price of approximately RMB330 per square meter. Each of the samples we reviewed has the requirement set out similar to the expected requirement from CECEP. Details of the area in question and the required specifications and expectation are well documented. We are satisfied to the basis of RMB330 per square meter for the Proposed Annual Caps.

The percentages of the annual caps of Services over the annual caps of Products for their corresponding periods are as follows:

Period	Sale and purchase of the Products	Provision of the Services	% of Services/ Products
From the Effective Date to 31 December 2013	RMB80,000,000	RMB7,000,000	8.75%
From 1 January 2014 to 31 December 2014	RMB150,000,000	RMB17,000,000	11.33%
From 1 January 2015 to 31 December 2015	RMB200,000,000	RMB22,000,000	11.00%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Save and except for the percentage over the period from the Effective Date to 31 December 2013, the percentages of the annual caps of Services over the annual caps of Products for their corresponding periods are materially equal. We have enquired the difference of the percentages between the first period and the second and third period, the management of the Company indicated that, on top of the sale and installation of the Products, the Services also represents operational services, including but not limited to, repair, maintenance and supervision service, where part of the Services rendered to CECEP would only take place after the completion of the sale of Products, hence amount of Services rendered is related to the amount of Products sold under previous period. Due to the fact that there has been no sale of Products prior to the Effective Date, it is expected that provision of Services to CECEP would only be stabilized from the second period.

In conclusion, having taken into account the above analysis on the projected sales of Products and provision of services to CECEP, which is within the historical consolidated revenue of the Group, the indicative orders by CECEP are based on their business forecasts with consistent assumptions, and the amount fall under the provision of the Services to CECEP is principally consistent, we consider that the Proposed Annual Caps proposed by the Directors are fair and reasonable.

IV. Annual review of the Continuing Connected Transactions

The Company confirms with us that it will comply with Rule 20.37 to Rule 20.41 of the GEM Listing Rules during the term of the Agreement, in particular:

- (a) the Proposed Annual Caps shall not be exceeded;
- (b) each year the independent non-executive Directors will review the Continuing Connected Transactions and confirm in the annual report of the Company that such transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Company;
 - (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (c) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) are in accordance with the pricing policies of the Group;
 - (iii) have been entered into in accordance with the terms of the Agreement;
and
 - (iv) have not exceeded the caps as disclosed;
- (d) the Board must state in the annual report of the Company whether its auditors have confirmed the matters as referred to in paragraph (c) above; and
- (e) upon any variation or renewal of the Agreement, the Company will comply in full with all applicable reporting, annual review, disclosure and independent shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

Given the above, we are of the view that the interests of the Company and the Independent Shareholders under the Continuing Connected Transactions will be properly safeguarded.

RECOMMENDATIONS

Having considered the abovementioned principal factors and reasons, we consider that: i) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group; ii) the terms of the Continuing Connected Transactions (and the Proposed Annual Caps thereunder) are on normal commercial terms which is not being preferential to CECEP and its subsidiaries and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; iii) the Proposed Annual Caps do not represent any extraordinary amount as compared with the historical track records of the Company; and iv) the fact that the Company undertakes to comply with the relevant provisions set out in the GEM Listing Rules of which would further safeguard the interests of the Independent Shareholders, we therefore recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favor of the resolutions to approve the Continuing Connected Transactions (and the Proposed Annual Caps hereunder) at the upcoming AGM.

Yours faithfully,
For and on behalf of
Hooray Capital Limited

Simon Ng
Director

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

(1) Reasons for Repurchases

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

(2) Funding of Repurchases

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

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

(3) Impact of Repurchases

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts for the nine months ended 31 December 2012) in the event that the proposed repurchases were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(4) Exercise of the Repurchase Mandate

As at the Latest Practicable Date, the authorised share capital of the Company was US\$160,000,000 divided into 16,000,000,000 Shares, of which 2,902,827,117 Shares were in issue. There were 355,992,000 outstanding options under the Company's share option schemes, to subscribe up to 355,992,000 Shares.

On the basis of 2,902,827,117 existing Shares in issue as at the Latest Practicable Date and assuming that no Shares are repurchased or further issued before the AGM, the Directors would be authorised to repurchase up to 290,282,711 Shares which represent 10 per cent. of the 2,902,827,117 existing Shares in issue as at the Latest Practicable Date.

(5) Disclosure of Interest

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

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

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

(6) Directors' Undertaking

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

(7) Share Repurchase made by the Company

The Company has purchased a total of 12,480,000 Shares on the Stock Exchange for a total consideration of HK\$4,716,360.00 during the six months preceding the date of this Circular as follows:

Date	No. of Shares Purchased	Prices Paid (Highest) (HK\$)	Prices Paid (Lowest) (HK\$)	Aggregate Consideration (HK\$)
12 September 2012	4,448,000	0.38	0.36	1,655,600.00
13 September 2012	1,200,000	0.38	0.37	455,400.00
14 September 2012	3,936,000	0.395	0.365	1,487,080.00
18 September 2012	1,000,000	0.40	0.40	400,000.00
3 October 2012	920,000	0.38	0.375	347,560.00
4 October 2012	<u>976,000</u>	0.38	0.375	<u>370,720.00</u>
Total:	<u><u>12,480,000</u></u>			<u><u>4,716,360.00</u></u>

(8) Takeovers Code Consequences

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholder's interest,

could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, CECEP(HK) holds 850,000,000 Shares, representing approximately 29.28% of the issued share capital of the Company. CECEP(HK) is a wholly-owned subsidiary of CECEP, therefore CECEP is deemed to be interested in 850,000,000 shares that held by CECEP(HK). In the event that the Directors exercised in full the power to repurchase Shares of the Company in accordance with the terms of the Repurchase Mandate, CECEP(HK)'s proportionate interests in the voting rights of the Company would be increased to approximately 32.53% in aggregate and they would be obliged to make a mandatory offer under Rule 26 of the Takeovers Code in this respect.

Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase pursuant to the Repurchase Mandate. Moreover, the Directors have no present intentions to exercise the Repurchase Mandate to such an extent that the obligation to make a general offer on the part of CECEP & CECEP(HK) will be triggered under the Takeovers Code. Assuming that there is no further issue of the Shares between the Latest Practicable Date and the date of repurchase, the exercise of the Repurchase Mandate in full will not result in the level of shareholdings in the Company being held by the public below the minimum public float as required under the GEM Listing Rules.

(9) Share Prices

The highest and lowest prices at which the Shares were traded on GEM during each of the twelve months from 1 May 2012 to 30 April 2013 and the period from 1 May 2013 up to the Latest Practicable Date were as follows:

Shares	Highest (HK\$)	Lowest (HK\$)
2012		
May	0.470	0.425
June	0.460	0.415
July	0.440	0.370
August	0.420	0.365
September	0.400	0.350
October	0.395	0.360
November	0.420	0.340
December	0.390	0.340
2013		
January	0.405	0.330
February	0.450	0.370
March	0.435	0.370
April	0.440	0.415
May (up to Latest Practicable Date)	0.485	0.440

APPENDIX II DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

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

Ms. Chan Wai Kay Katherine (“Ms. Chan”), aged 54, the deputy chairman of the Board and executive Director of the Company, holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and has extensive experience in supervising initial public offerings and other fund raising exercises conducted by companies in Asia. With various key positions previously held in listed companies, Ms. Chan has profound practicing knowledge in company’s strategic planning and corporate management of listed companies.

Ms. Chan is also the directors of various subsidiaries of the Company, namely, II Networks International Limited, IIN Network Operations Limited, IIN Software Technology Limited, Far High International Limited, China Ground Source Energy Industry Group Limited, Beijing Enterprises Ever Source (Hong Kong) Limited, Ever Source Technology Limited, Beijing Enterprises Ever Source Limited, Beijing Enterprises Ever Source Technology Limited, Beijing Enterprises Ever Source Energy Limited. Save as disclosed above, as at the Latest Practicable Date, Ms. Chan had not previously held any positions with the Company or its subsidiaries, does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company, and did not have any other major appointments and professional qualifications. Ms. Chan is currently an independent non-executive director of Skyworth Digital Holdings Limited and she was the chairperson and an executive director of Natural Dairy (NZ) Holdings Limited from September 2007 to January 2010, both companies with their shares listed on the Main Board of the Stock Exchange. Save as disclosed. Ms. Chan did not hold any directorship in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

There is a service agreement entered between Ms. Chan and the Company in respect of her appointment as an executive Director which was renewed for a term of two years from 25 March 2013. Pursuant to the Company’s Articles of Association, Ms. Chan is subject to retirement by rotation and re-election at annual general meetings of the Company. Ms. Chan received a director’s emolument of HK\$1,920,000 per annum which was fixed with reference to market conditions and her duties and responsibilities with the Group.

As at the Latest Practicable Date, under the SFO, Ms. Chan is deemed to be interested in 44,074,000 Shares in which 10,074,000 Shares were held by Mr. Chow Ming Joe Raymond, the spouse of Ms. Chan. Ms. Chan also has 28,700,000 share options of the Company. Save as disclosed, Ms. Chan has no interests in the Shares within the meaning of Part XV of the SFO.

The following two companies incorporated in Hong Kong (each an indirectly wholly owned subsidiary of the abovementioned Natural Dairy (NZ) Holdings Limited), in which Ms. Chan was a director, have been put into creditors’ voluntary winding up:

1. Linfair Engineering (H.K.) Co. Ltd. (commencement of creditors’ voluntary winding up on 15 September 2009); and
2. Linfair Capital Limited (commencement of creditors’ voluntary winding up on 15 September 2009).

APPENDIX II DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

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

Mr. Xu Shengheng (“Mr. Xu”), aged 50, the chief executive officer and an executive Director of the Company, holds a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology. Mr. Xu has over 14 years of experience in the promotion, research and development of shallow geothermal energy as alternative energy for heating. The single well circulation ground heat exchange technology developed by Mr. Xu has been awarded the 2003 GRC Best Paper Award by Geothermal Resources Council and the 1st Prize Technology Advancement 2008 by All-China Federation of Industry and Commerce. Mr. Xu has extensive experience in scientific research and enterprise management.

Mr. Xu is also the directors of various subsidiaries of the Company, namely, II Networks International Limited, IIN Network Operations Limited, IIN Software Technology Limited, Far High International Limited, China Ground Source Energy Industry Group Limited, Beijing Enterprises Ever Source (Hong Kong) Limited, Ever Source Technology Limited, Beijing Enterprises Ever Source Limited, Beijing Enterprises Ever Source Technology Limited, Beijing Enterprises Ever Source Energy Limited, China Geothermal Energy Press Limited, Sharp Bloom Investments Limited, Ample Start Investments Limited, China Ground Source Energy (Hangzhou) Limited, Golden Ever Kin Yip (Hong Kong) Ltd.* (金恒建業(香港)有限公司), Golden Ever Wai Yip (Hong Kong) Ltd.* (金恒偉業(香港)有限公司), Golden Ever Chong Yip (Hong Kong) Ltd.* (金恒創業(香港)有限公司), Golden Ever Sin Yip (Hong Kong) Ltd.* (金恒新業(香港)有限公司), Golden Ever Ka Yip (Hong Kong) Ltd.* (金恒嘉業(香港)有限公司), Golden Ever Hing Yip (Hong Kong) Ltd.* (金恒興業(香港)有限公司), Ever Source Science and Technology Development Group Ltd.* (恒有源科技發展集團有限公司), Beijing Enterprises Ever Source (Beijing) Co. Limited* (北京北控恒有源科技發展有限公司), Beijing Ever Source Geothermal System Limited* (北京恒有源地能熱源系統有限公司), Beijing Ever Source Shallow Geothermal Energy Scientific and Technology Development Limited* (北京恒有源淺層地能科技發展有限公司), Beijing Haidan Ever Source Occupational Skills Training School* (北京海澱區恒有源職業技術培訓學校), Beijing Walei Ever Source Scientific and Technology Development Limited* (北京華利恒有源科技發展有限公司), Beijing Ever Source Si Au Tat Scientific and Technology Development Limited* (北京恒有源西亞特科技發展有限公司), Beijing Green Energy Ho Tian Biomass Technology Co., Ltd.* (北京綠能皓天生物質能源科技有限公司), Minyang City Golden Ever Source Geothermal Technology Co., Ltd.* (綿陽市金恒源地能科技有限公司), Heng Run Feng Realty (Dalian) Company Ltd.* (恒潤豐置業(大連)有限公司), Heng Run Feng Infrastructure (Dalian) Co., Ltd.* (恒潤豐城市基礎設施建設(大連)有限公司), Heng Run Feng Concrete (Dalian) Co., Ltd.* (恒潤豐砼業(大連)有限公司) and Beijing Ever Source Environmental System Installation Limited* (北京恒有源環境系統設備安裝工程有限公司). Save as disclosed above, as at the Latest Practicable Date, Mr. Xu had not previously held any positions with the Company or its subsidiaries, does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company, and did not have any other major appointments and professional qualifications. Save as disclosed. Mr. Xu did not hold any directorship in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

APPENDIX II DETAILS OF DIRECTORS PROPOSED TO BE RE-ELECTED

There is a service agreement entered between Mr. Xu and the Company in respect of his appointment as an executive Director which was renewed for a term of two years from 25 March 2013. Pursuant to the Company's Articles of Association, Mr. Xu is subject to retirement by rotation and re-election at annual general meetings of the Company. Mr. Xu received a director's emolument of HK\$1,920,000 per annum which was fixed with reference to market conditions and his duties and responsibilities with the Group.

As at the Latest Practicable Date, under the SFO, Mr. Xu has a long position in shares and underlying shares of 532,321,000 shares which represented that he holds 508,319,000 Shares and 23,300,000 share options of the Company as beneficial owner and Ms. Luk Hoi Man, the spouse of Mr. Xu, holds 702,000 Shares. In addition, Mr. Xu has a short position in 508,300,000 shares that held by him. Save as disclosed, Mr. Xu has no interests in the Shares within the meaning of Part XV of the SFO.

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

Mr. Jia Wenzeng ("Mr. Jia"), aged 70, an independent non-executive Director, the chairman of the audit committee and member of the remuneration committee and nomination committee of the Company. Mr. Jia has been working in financial management since 1963 with in-depth research and practice in corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Save as disclosed above, as at the Latest Practicable Date, Mr. Jia had not previously held any positions with the Company or its subsidiaries, does not have any relationship with any director, senior management, management shareholder, substantial shareholder or controlling shareholder of the Company, and did not have any other major appointments and professional qualifications. Save as disclosed, Mr. Jia did not hold any directorship in any public companies whose securities are listed on any securities market in Hong Kong or overseas in the past three years.

Mr. Jia has entered into an appointment letter with the Company in respect of his appointment as an independent non-executive Director which was renewed for a term of two years from 25 March 2013.

Pursuant to the Company's articles of association, Mr. Jia is subject to retirement by rotation and re-election at annual general meetings of the Company. Mr. Jia received an annual director's fee of HK\$150,000 which is fixed with reference to market conditions and his duties and responsibilities with the Group.

As at the Latest Practicable Date, Mr. Jia has 4,000,000 share options of the Company. Save as disclosed, Mr. Jia has no interests in the Shares within the meaning of Part XV of the SFO.

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

The Chinese version of the proposed amendments to the Articles of Association is an unofficial translation of its version and is translated for reference only. In case of discrepancy between the two versions, the English version shall prevail.

Details of the proposed amendments to the Articles of Association are as follows (words and provisions deleted therein are shown with strike-through lines, whereas newly added words and provisions are shown with underlines):

1) Article 2

Add the definition of “business days”:

“business day” shall mean a day on which the Designated Stock Exchange generally is open for the business of dealing in securities in Hong Kong. For the avoidance of doubt, where the Designated Stock Exchange is closed for the business of dealing in securities in Hong Kong on a business day by reason of a Number 8 or higher typhoon signal, black rainstorm warning or other similar event, such day shall for the purposes of these Articles be counted as a business day.

2) Article 2

Add the definition of “Company”:

“Company” China Ground Source Energy Limited
中國地能有限公司

3) Article 2

Amend the definition of “Law” as follows:

“Law” The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and (R)revised) of the Cayman Islands ~~and every modification thereof.~~

4) Article 2

Amend the definition of “Ordinary resolution” as follows:

“Ordinary resolution” a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which Notice has been duly given in accordance with Article 59~~not less than fourteen (14) clear days’ Notice has been duly given.~~

5) Article 2

Amend the definition of “Special resolution” as follows:

“Special resolution” a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorized representative or, where proxies are allowed, by proxy at a general meeting of which ~~not less than twenty-one (21) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given in accordance with Article 59. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety= five (95) per cent. in nominal value of the shares giving that right and in the case of an annual general meeting, if it is so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which not less than twenty-one (21) clear days’ Notice has been given.~~

~~a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.~~

6) Article 2

Amend the definition of “Subsidiary and Holding Company” as follows:

“Subsidiary and Holding Company” has the meanings attributed to them in Section 2 of the Companies Ordinance of Hong Kong as in force at the time of adoption of the Articles the rules of the Designated Stock Exchange.

7) Article 2

Add the definition of “substantial shareholder”:

“substantial shareholder” a person who is entitled to exercise, or to control the exercise of, 10% or more (or such other percentage as may be prescribed by the rules of the Designated Stock Exchange from time to time) of the voting power at any general meeting of the Company.

8) Article 10

Delete the existing Article 10(c) in its entirety:

~~(c) any holder of shares of the class present in person or by proxy or authorized representative may demand a poll.~~

9) Article 12

Amend the existing Article 12(2) as follows:

(2) The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

10) Article 44

Amend the existing Article 44 as follows:

44. The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours on every during business day hours by Members without charge or by any other person, upon a maximum payment of \$2.50 or such lesser sum specified by the Board, at the Office or such other place ~~in the Cayman Islands~~ at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board

at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper ~~and where applicable, or~~ any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

11) Article 48

Amend the existing Article 48(4) as follows:

- (4) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place ~~in the Cayman Islands~~ at which the Register is kept in accordance with the Law.

12) Article 51

Amend the existing Article 51 as follows:

51. The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in ~~an appointed newspapers and, where applicable,~~ any ~~other~~ newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

13) Article 59

Amend the existing Article 59(1) as follows:

- (1) ~~An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by Notice of not less than twenty-one(21) clear days' Notice and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by Notice of not less than~~

twenty one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by Notice of not less than fourteen (14) clear days' and not less than ten (10) clear business days but if permitted by the rules of the Designated Stock Exchange, Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:

Amend the existing Article 59(2) as follows:

- (2) The notice shall specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

14) Article 61

Add sub-clause (g) to the existing Article 61:

- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

15) Article 66

Amend the existing Article 66 as follows:

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a representative duly authorised), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, A resolution put to the vote of a meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every Member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of

~~hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of poll is required by the rules of the Designated Stock Exchange (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded. For purposes of this Article, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by the Company to its Members; and (ii) relate to the chairman's duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all Members a reasonable opportunity to express their views. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded:~~

~~(a) by the chairman of such meeting; or~~

~~(a)(b) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or~~

~~(b)(c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or~~

~~(c)(d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.~~

~~(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.~~

16) Article 67

Amend the existing Article 67 as follows:

67. ~~Unless~~ Where a poll resolution is duly demanded and the demand is not withdrawn ~~voted on by a show of hands~~, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

17) Article 68

Amend the existing Article 68 as follows:

68. ~~If a poll is duly demanded t~~The result of the poll shall be deemed to be the resolution of the meeting ~~at which the poll was demanded~~. The Company shall disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange.

18) Article 69

Delete the existing Article 69 in its entirety:

69. ~~A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.~~

19) Article 70

Delete the existing Article 70 in its entirety:

70. ~~The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.~~

20) Article 73

Amend the existing Article 73 as follows:

73. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, ~~whether on a show of hands or on a poll~~, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.

21) Article 75

Amend the existing Article 75(1) as follows:

- (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, ~~whether on a show of hands or on a poll,~~ by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote ~~on a poll~~ by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting ~~or poll~~, as the case may be.

22) Article 80

Amend the existing Article 80 as follows:

80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote ~~or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.~~ No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting ~~or on a poll demanded at a meeting or an adjourned meeting~~ in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.

23) Article 81

Amend the existing Article 81 as follows:

81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority ~~to demand or join in demanding a poll and to vote~~ on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.

24) Article 82

Amend the existing Article 82 as follows:

82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, ~~or the taking of the poll,~~ at which the instrument of proxy is used.

25) Article 84

Amend the existing Article 84(2) as follows:

- (2) If a clearing house within the meaning of the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

26) Article 89

Amend the existing Article 89(1) as follows:

- (1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board ~~whereupon the Board resolves to accept such resignation;~~

27) Article 103

Amend the existing Article 103(iv) as follows:

- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company ~~or any of its subsidiaries~~ by virtue only of his/their interest in shares or debentures or other securities of the Company; or

Delete the existing Article 103(v) and renumber the existing Article 103(vi) to Article 103(v)

- ~~(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or~~

Delete the existing Article 103(2) &(3) and renumber the existing Article 103(4) to Article 103(2)

- ~~(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.~~

- (3) ~~Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.~~

28) Article 115

Amend the existing Article 115 as follows:

115. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. ~~The Secretary shall convene a meeting of the Board of which notice may be given in writing~~ Notice of a meeting of the Board shall be deemed to be duly given to a Director if it is given to such Director in writing or verbally (including in person or by telephone) or via electronic mail or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.

29) Article 122

Amend the existing Article 122 as follows:

122. A resolution in writing signed by all the Directors except such as are temporarily unable to act through ill-health or disability, and all the alternate Directors, if appropriate, whose appointors are temporarily unable to act as aforesaid shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Articles) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors or alternate Directors and for this purpose a facsimile signature of a Director or an alternate Director shall be treated as valid. Notwithstanding the foregoing, a resolution in writing shall not be passed in lieu of a meeting of the Board for the purposes of considering any matter or business in which a substantial shareholder of the Company or a Director has a conflict of interest and the Board has determined that such conflict of interest to be material.

30) Article 133

Amend the existing Article 133(1) as follows:

- (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word "Securities" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with ~~(except in the case of certificates for shares)~~ or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.

31) Article 152

Add the following two new provisions under the existing Article 152 (which will be renumbered to Article 150):

- 151 Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 150 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, summarised financial statements derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

152 The requirement to send to a person referred to in Article 150 the documents referred to in that article or a summary financial report in accordance with Article 151 shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 150 and, if applicable, a summary financial report complying with Article 151, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

32) Article 159

Amend the existing Article 159 as follows:

159. Any Notice or document (including any "corporate communication" within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website or the website of the Designated Stock Exchange, and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

33) Article 160

Add sub-clauses (b) and (d) under the existing Article 160 and renumber the existing Article 160(b) to Article 160(c):

- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A Notice placed on the Company's website or the website of the Designated Stock Exchange, is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;

- (d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.

The existing Articles will be renumbered in the amended and restated Memorandum and Articles of Association so that all provisions are presented in a proper and continued sequence.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date are as follows:–

Number of Shares	Nominal value
<i>Authorised</i>	<i>US\$</i>
<u>16,000,000,000</u>	<u>160,000,000</u>
<i>Issued and fully paid or credited as fully paid</i>	
<u>2,902,827,117</u>	<u>29,028,271.17</u>

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Long position and short position in shares and equity derivatives

Name of director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity			Approximate percentage of interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in shares	Approximate percentage of interests in shares	Interests under equity derivatives			
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	34,000,000 (L)	1.17%	28,700,000 (L)	72,774,000 (L)	2.51%	
	Interest of spouse	10,074,000 (L)	0.35%	-			
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)	17.51%	23,300,000 (L)	532,321,000 (L)	18.34%	
	Beneficial owner	508,300,000 (S)	17.51%	-	508,300,000 (S)	17.51%	
	Interest of spouse	702,000 (L)	0.02%	-			
Ms. Wu Xiaohua (Note 3)	Beneficial owner	-	-	3,500,000 (L)	3,500,000 (L)	0.12%	
Mr. Jia Wenzeng (Note 4)	Beneficial owner	-	-	4,000,000 (L)	4,000,000 (L)	0.14%	
Mr. Wu Desheng (Note 5)	Beneficial owner	-	-	2,500,000 (L)	2,500,000 (L)	0.09%	

(L): Long position, (S): Short position

Notes:

- Ms. Chan Wai Kay Katherine (“Ms. Chan”) is interested in 34,000,000 shares and 28,700,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (ii) of this section and Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan, holds 10,074,000 Shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
- Mr. Xu Shengheng (“Mr. Xu”) is interested in 508,319,000 Shares and 23,300,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (ii) of this section. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under SFO, Mr. Xu is deemed to be interested in the 702,000 Shares in which Ms. Luk is interested.
- Ms. Wu Xiaohua is interested in 3,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (ii) of this section.
- Mr. Jia Wenzeng is interested in 4,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (ii) of this section.
- Mr. Wu Desheng is interested in 2,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (ii) of this section.

*(ii) Long Position under Equity Derivatives**The Share Option Plan*

On 28 July 2010, the Company, by a shareholders' resolution, conditionally adopted a new share option scheme (the "Share Option Plan") for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at the Latest Practicable Date, the following directors of the Company were interested in the following options under the Share Option 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
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	11,700,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000
	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000
Ms. Wu Xiaohua	6 February 2013	6 February 2013 to 5 February 2015	0.426	3,500,000
Mr. Wu Desheng	6 February 2013	6 February 2013 to 5 February 2015	0.426	2,500,000

Save as disclosed above, as at the Latest Practicable Date, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

As at the Latest Practicable Date, none of the Directors and proposed Directors of the Company has any direct or indirect interest in any assets which have since 31 December 2012 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) 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

As at the Latest Practicable Date, so far as is notified to the directors of the Company, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Position and short position in shares and equity derivatives

Name	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and capacity		Percentage of interests in shares	Interests under equity derivatives	Aggregate interests	Percentage of aggregate interests
		Interest in shares					
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	850,000,000 (L)		29.28%	-	850,000,000 (L)	29.28%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	850,000,000 (L)		29.28%	-	850,000,000 (L)	29.28%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)		0.02%	-		
	Interest of spouse	508,319,000 (L)		17.51%	23,300,000 (L)	532,321,000 (L)	18.34%
	Interest of spouse	508,300,000 (S)		17.51%		508,300,000 (S)	17.51%

(L): Long position, (S): Short position

Notes:

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group (“CECEP”), therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.
2. Ms. Luk Hoi Man (“Ms. Luk”), the spouse of Mr. Xu Shengheng (“Mr. Xu”), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 23,300,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 23,300,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company 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, interest or short positions in the shares or underlying shares of the Company (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 are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

As at the Latest Practicable Date, Mr. Zheng Qiyu (who is an executive Director), Ms. Wu Xiaohua and Ms. Xu Genghong (who are non-executive Directors) are the employees of CECEP and also the directors of CECEP(HK).

4. MATERIAL CONTRACTS

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

- (i) the JV Contract;
- (ii) the Agreement;
- (iii) On 21 February 2013, a strategic co-operation framework agreement was entered into between the Company and Accord Sunny investments Limited, an independent third party not connected to the Group, pursuant to which a preliminary cooperation framework in relation to the acquisition of a piece of land and the investment of the construction on the land has been agreed. Details of the co-operation framework agreement are set out in the announcement of the Company dated 21 February 2013.
- (iv) On 4 February 2013, HYY, a subsidiary of the Company, and CECEP New Material Investment Co. Ltd, a connected person to the Group, have entered into the Capital Increment Agreement (“**Capital Increment Agreement**”). Pursuant to the Capital Increment Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Fujian CECEP Quancheng Investment Co., Ltd. at a total consideration of RMB40,000,000 (equivalent to approximately HK\$49,826,000). Details of the subscription are set out in the announcement of the Company dated 4 February 2013.

- (v) On 11 April 2012, the Company entered into a letter of intent with CECEP(HK) in relation to the allotment and issue of 850,000,000 Shares at a price of HK\$0.41 per subscription share. The subscription of Shares by CECEP(HK) was completed on 20 August 2012. A total of 850,000,000 ordinary Shares of US\$0.01 each were issued at subscription price of HK\$0.41 per share for cash totaling HK\$348,500,000, representing approximately 29.16% of the issued share capital of the Company as at 20 August 2012 as enlarged by the subscription. Details of the subscription are set out, inter alia, in the announcement and circular of the Company dated 13 April 2012, 5 June 2012 and 20 August 2012 respectively.

5. DIRECTORS' SERVICE CONTRACTS

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

6. EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualifications
Hooray Capital Limited	a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the transaction contemplated thereunder

Hooray Capital Limited has given and has not withdrawn its written consents to the issue of this circular with the inclusion herein of its letters and reports and references to its name in the form and context in which it appears.

As at the Latest Practicable Date,

- (i) Hooray Capital Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (ii) Hooray Capital Limited did not have any direct or indirect interest in any asset which has been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since the date to which the latest published audited financial statements of the Group were made up.

7. LITIGATION

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

8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group was made up.

9. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. MISCELLANEOUS

- (i) The registered office of the Company is located at Floor 4, Willow House, Cricket Square, P.O. Box 2804, KY1-1112, Grand Cayman, Cayman Islands.
- (ii) The head office of the Company is located at Room 1301, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong.
- (iii) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The company secretary of the Company is Ms. Wong Lai Yuk, an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on Business Days at the office of Keith Lam, Lau and Chan at 5-7th Floors, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong from the date of this circular up to and including 13 June 2013, and at the AGM:

- (a) the JV Contract;
- (b) the Agreement;
- (c) the letter from the Board, the text of which is set out in this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from Hooray Capital Limited, the text of which is set out in this circular;
- (f) a copy of this circular;
- (g) the Articles of Association;
- (h) the material contracts referred to in the paragraph headed “MATERIAL CONTRACTS” in Appendix IV to this circular; and
- (i) the annual reports of the Company for the financial year ended 31 March 2012 and for the nine months ended 31 December 2012 respectively.

NOTICE OF ANNUAL GENERAL MEETING



中國地能有限公司
CHINA GROUND SOURCE ENERGY LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8128)

NOTICE IS HEREBY GIVEN that the annual general meeting (the “**Annual General Meeting**”) of China Ground Source Energy Limited (the “**Company**”) will be held on Thursday, 13 June 2013 at 9:30 a.m. at East Room, Mandarin Oriental Hong Kong, 23rd Floor, 5 Connaught Road, Central, Hong Kong for the following purposes:

1. To receive and consider the audited financial statements of the Company for the nine months ended 31 December 2012 together with the reports of the directors of the Company (the “**Directors**”) and the auditors of the Company thereon.
2. To approve the distribution of final dividend.
3. To re-elect Ms. Chan Wai Kay Katherine and Mr. Xu Shengheng as executive Directors and Mr. Jia Wenzeng as independent non-executive Director and to authorise the board of Directors to fix their remuneration.
4. To re-appoint SHINEWING (HK) CPA Limited as the auditors of the Company and to authorise the Directors to fix their remuneration.

ORDINARY RESOLUTIONS

5. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:
 - A. “**THAT:**
 - (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

B. **“THAT:**

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

C. **“THAT** conditional upon the passing the resolutions numbered 5A and 5B as set out in the notice convening the Annual General Meeting, the aggregate nominal value of the share capital of the Company which are repurchased by the Company pursuant to and in accordance with resolution numbered 5B shall be added to the aggregate nominal value of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with resolution numbered 5A.”

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

“THAT:

subject to and conditional upon the GEM Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of US\$0.01 each (“**Shares**”) in the share capital of the Company to be issued pursuant to the

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exercise of options which may be granted under the Refreshed Scheme Limit (as defined below), the refreshment of the scheme limit of the Company's share option scheme adopted on 28 July 2010, of up to 10 per cent. of the number of Shares in issue as at the date of passing this resolution ("**Refreshed Scheme Limit**") be and is hereby approved and the directors of the Company be and are hereby authorised to grant options and allot and issue Shares pursuant to the exercise of any options granted under the Refreshed Scheme Limit and to do all such acts, deeds and things as they shall, in their absolute discretion, deem fit in order to effect the foregoing."

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

"THAT:

- (a) the agreement (the "**Agreement**") dated 21 March 2013 entered into between the Company (as vendor) and China Energy Conservation and Environmental Protection Group Company ("**CECEP**") (as purchaser) pursuant to which CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell:
- (i) the products using "HYY single-well circulation for heat exchange geothermal energy collection technology", an original innovation of the Company as focus, and using shallow geothermal as alternative energy for heating/cooling, including but not limited to, the "HYY geothermal energy heat pump environmental system" and the "HYY multi-source distributed energy stations focused on using geothermal energy" (the "**Products**"); and
 - (ii) the operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products (the "**Services**"),

for the term commencing from the date of the approval of the shareholders of the Company excluding CECEP (HK) and its associates of the Agreement or 1 May 2013, whichever is the later (the "**Effective Date**"), to 31 December 2015, a copy of which is produced to the meeting marked "A" and initialed by the chairman of the meeting for identification purpose, and the transactions thereunder be and are hereby confirmed, approved and ratified, and any one director of the Company be and is hereby authorised to take such actions and execute such documents (to be countersigned by another director of the Company if the common seal of the Company is required to be affixed thereto) as he may consider necessary or desirable to carry out and complete the transactions thereunder;

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- (b) the proposed aggregate annual caps for the purchases of the Products by CECEP and its subsidiaries from the Company and its subsidiaries under the Agreement for each of the three periods: (1) from the Effective Date to 31 December 2013; (2) from 1 January 2014 to 31 December 2014; and (3) from 1 January 2015 to 31 December 2015 are RMB80,000,000, RMB150,000,000 and RMB200,000,000 equivalent to approximately HK\$100,000,000, HK\$187,500,000 and HK\$250,000,000, respectively, be and are hereby approved; and

- (c) the proposed aggregate annual caps for the purchases of the Services by CECEP and its subsidiaries from the Company and its subsidiaries under the Agreement for each of the three periods: (1) from the Effective Date to 31 December 2013; (2) from 1 January 2014 to 31 December 2014; and (3) from 1 January 2015 to 31 December 2015 are RMB7,000,000, RMB17,000,000 and RMB22,000,000 equivalent to approximately HK\$8,750,000, HK\$21,250,000 and HK\$27,500,000, respectively, be and are hereby approved.”

SPECIAL RESOLUTIONS

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

“**THAT** subject to and conditional upon the approval of the Registrar of Companies in the Cayman Islands, the name of the Company be changed from “China Ground Source Energy Limited 中國地能有限公司” to “China Ground Source Energy Industry Group Limited 中國地能產業集團有限公司” with effect from the date on which such name is entered on the register of companies maintained by the Registrar of Companies in the Cayman Islands, and the directors of the Company be and are hereby authorised to do all such acts, deeds and things and execute all such documents and make all such arrangements as they shall, in their absolute discretion, deem necessary or expedient to effect the foregoing.”

- 9. To consider and, if thought fit, pass the following resolutions (with or without amendments) as special resolutions:
 - (A) “**THAT** the Articles of Association of the Company (the “**Articles of Association**”) be amended in the manner as set out in Appendix III to the circular of the Company dated 13 May 2013.”

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- (B) “**THAT** subject to the passing of the special resolution numbered 9(A) as set out in the notice convening this meeting, an amended and restated Memorandum and Articles of Association which consolidates all of the proposed amendments referred to in the special resolution numbered 9(A) and all previous amendments made pursuant to resolutions passed by the shareholders of the Company at general meetings, a copy of which is produced to the meeting and marked ‘B’ and initialed by the chairman of this meeting for the purpose of identification, be and is hereby adopted as the amended and restated Memorandum and Articles of Association of the Company in substitution for and to the exclusion of the existing Memorandum and Articles of Association with immediate effect.”

By order of the Board
China Ground Source Energy Limited
Zheng Qiyu
Chairman

Hong Kong, 13 May 2013

* *For identification purposes only*

The conversion of RMB into HK\$ is based on the exchange rate of RMB1=HK\$1.25. Such conversion should not be construed as a representation that the amount in question has been, could have been or could be converted at any particular rate or at all.

As at the date hereof, the Board of Directors of the Company comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Ms. Wu Xiaohua and Ms. Xu Genghong as non-executive Directors, Mr. Hu Zhaoguang, Mr. Jia Wenzeng and Mr. Wu Desheng as independent non-executive Directors.

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Notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the Annual General Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Annual General Meeting and in such event, the form of proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from Tuesday, 11 June 2013 to Thursday, 13 June 2013, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 June 2013.