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CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

PROPOSED CAPITAL REORGANISATION

The Board proposes that the nominal value of the share capital of the Company to be reduced from US\$0.04 to US\$0.01 by way of a reduction of capital. The credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company and be applied for such purposes as permitted by the laws of the Cayman Islands and the Articles and as the Board considers appropriate. The authorised but unissued Existing Shares of par value US\$0.04 each will be subdivided into 4 New Shares of par value US\$0.01 each. Immediately upon the Capital Reorganisation taking effect and on the basis that the Company does not allot or issue any further Existing Shares prior thereto, the authorised share capital of the Company shall be US\$160,000,000 comprising 16,000,000,000 New Shares and the Company's issued share capital shall be US\$20,653,071.17 comprising 2,065,307,117 New Shares.

The Capital Reorganisation is subject to, among other things, the approval of the Shareholders at the EGM and confirmation by the Cayman Islands Court.

A circular containing, among other things, details of the proposed Capital Reorganisation and the notice of the EGM, will be despatched to the Shareholders as soon as practicable.

CAPITAL REORGANISATION

The Board proposes that the nominal value of each issued Existing Share of the Company to be reduced from US\$0.04 to US\$0.01 by cancellation of the paid-up capital to the extent of US\$0.03 on each issued Existing Share and each authorised but unissued Existing Share be subdivided into four New Shares of US\$0.01 par value each.

As at the date of this announcement, the authorized share capital of the Company amounted to US\$160,000,000 divided into 4,000,000,000 Existing Shares, of which 2,065,307,117 Existing Shares had been allotted and issued as fully paid. The Board intends to put forward the following Capital Reorganisation proposal comprising of:

- (i) a reduction in the nominal value of all the issued Existing Shares from par value of US\$0.04 each to US\$0.01 each by cancellation of the paid-up capital to the extent of US\$0.03 on each issued Existing Share;
- (ii) the credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company and be applied for such purposes as permitted by the laws of the Cayman Islands and the Articles and as the Board considers appropriate; and
- (iii) the share subdivision of each of the authorised but unissued Existing Share of par value US\$0.04 each into four New Shares of par value US\$0.01 each.

The amount of the issued capital being reduced on each of the issued Existing Shares shall be made available for issuance of New Shares of the Company so that the authorized share capital of the Company of US\$160,000,000 shall remain unchanged upon the Capital Reorganisation taking effect. Immediately upon the Capital Reorganisation taking effect, and on the basis that the Company does not allot or issue any further Existing Shares prior thereto, the authorized share capital of the Company shall be US\$160,000,000 comprising 16,000,000,000 New Shares and the Company's issued share capital shall be US\$20,653,071.17 comprising 2,065,307,117 New Shares, each with a nominal value of US\$0.01.

The New Shares will rank *pari passu* in all respects with each other and the Capital Reorganisation will not result in any change in the relative rights of the Shareholders.

Reasons for the Capital Reorganisation

The Board believes that the Capital Reorganisation is in the best interests of the Company and the Shareholders as a whole. The total credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company. The utilization of the account will be applied for such purposes as permitted by the laws of Cayman Islands and the Articles and as the Board considers appropriate. The Board is of the opinion that the Capital Reorganisation will enable the Company to declare dividends to the Shareholders in the future.

At this stage, there can be no assurance that when a dividend will be declared or paid in future even if the Capital Reorganisation becomes effective.

Conditions of the Capital Reorganisation

The implementation of the Capital Reorganisation and the listing of the New Shares are conditional upon:

- (1) the passing of a special resolution by the Shareholders at the EGM to approve the Capital Reorganisation;
- (2) approval of the Capital Reduction by the Cayman Islands Court;
- (3) the registration by the Registrar of Companies in the Cayman Islands of the Cayman Islands Court order and the minute approved by the Cayman Islands Court pursuant to the Companies Law;
- (4) compliance with any conditions which the Cayman Islands Court may impose in order for the Capital Reduction to become effective; and
- (5) the Stock Exchange granting listing of, and permission to deal in, the New Shares.

An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the New Shares.

The Capital Reorganisation will become effective upon the fulfillment of the above conditions. The effective date of the Capital Reorganisation has not yet been confirmed.

On the Capital Reorganisation becoming effective, Shareholders may submit existing certificates for the Existing Shares to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 Hopewell Centre, 183 Queen's Road East, Hong Kong, for exchange, at the expense of the Company, within one month from the effective date of the Capital Reorganisation, for certificates for the New Shares. All existing certificates for the Existing Shares and the new certificates for the New Shares will be effective as documents of title for the New Shares and valid for trading, settlement and registration purposes.

A further announcement will be made by the Company in respect of the effective date of the Capital Reorganisation and the arrangement for the exchange of share certificates.

The New Shares will continue to be traded in the existing board lots of 8,000 and there will not be any arrangement for parallel trading.

EXPECTED TIMETABLE

Set out below is the expected timetable for the Capital Reorganisation:

Expected time and date of the EGM 11:00 a.m. on 23 March 2011

Expected effective date of the Capital Reorganisation (*Note 2*) 23 June 2011

Notes:

- (1) All times in this timetable refer to Hong Kong time.
- (2) Dates or deadlines specified in this announcement for events in the timetable for (or otherwise in relation to) the Capital Reorganisation are indicative only and may be extended or varied due to the timetable and availability of the Cayman Islands Court, additional time required for compliance with the regulatory requirements in the Cayman Islands and/or with any requirements imposed by the Cayman Islands Court or varied by the Company. Any change to the expected timetable for the Capital Reorganisation will be published as and when appropriate.

GENERAL

A circular containing, among other things, details of the proposed Capital Reorganisation and the notice of the EGM, will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Articles”	the articles of association of the Company, as amended from time to time
“Board”	board of the Directors
“Capital Reduction”	the proposed reduction of the nominal value of each issued Existing Share from US\$0.04 to US\$0.01 by canceling the paid-up capital to the extent of US\$0.03 on each issued Existing Share
“Capital Reorganisation”	the proposed reorganization of the share capital of the Company by way of the Capital Reduction and Share Subdivision as referred to in this announcement
“Cayman Islands Court”	the Grand Court of the Cayman Islands

“Companies Law”	The Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	China Ground Source Energy Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held on or around 23 March 2011 to consider and, if thought fit, approve the Capital Reorganisation
“Existing Share(s)”	existing ordinary share(s) of US\$0.04 each in the capital of the Company prior to the Capital Reorganisation becoming effective
“GEM”	the Growth Enterprise Market of the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“New Share(s)”	ordinary share(s) of US\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Share(s)”	the Existing Share(s) or, as the case may be, the New Share(s)
“Shareholder(s)”	holder(s) of the Shares
“Share Subdivision”	the proposed subdivision of every authorised but unissued Existing Share of par value US\$0.04 each into four New Shares of par value US\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 14 February 2011

As at the date of this announcement, the Board comprises Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng, Mr. Wu Shu Min and Mr. Jeffrey Soo Kim Fui as executive Directors, Mr. Fu Hui Zhong as non-executive Director, Ms. Laura Chan Man Kuen, Mr. Jia Wenzeng and Mr. Paul Chow Wan Hoi as independent non-executive Directors.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the website of the Company at www.iini.com.