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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 wishes to put forward to the Shareholders the following proposals that:

- (1) Share Consolidation – every 4 Existing Shares in the issued and unissued share capital of the Company be consolidated into one Consolidated Share;
- (2) Capital Reduction – the par value of all the issued Consolidated Shares be reduced from US\$0.04 each to US\$0.01 each by cancelling the paid-up capital to the extent of US\$0.03 per issued Consolidated Shares by way of a reduction of capital;
- (3) Subdivision – every authorised but unissued Consolidated Share be subdivided into 4 New Shares with a par value of US\$0.01 each; and
- (4) the credit arising from the reduction of capital be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

A circular containing further details on the Capital Reorganisation together with a notice of the EGM, will be dispatched to the Shareholders as soon as possible.

The expected timetable for the implementation of the Capital Reorganisation is set out below.

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- (4) the credit arising from the reduction of capital be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

PROPOSED SHARE CONSOLIDATION

As at the date of this announcement, the authorised share capital of the Company was US\$80,000,000 comprising 8,000,000,000 Existing Shares with a par value of US\$0.01 each, of which 6,753,112,470 Existing Shares are in issue.

The Board proposes to effect the Share Consolidation pursuant to which every 4 issued and unissued Existing Shares will be consolidated into one Consolidated Share with a par value of US\$0.04 each. Any fractional entitlement of Consolidated Shares will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company will appoint a securities firm to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Consolidated Shares to make up a full board lot, or to dispose of their holding of odd lots of the Consolidated Shares. Details of the odd lot arrangement will be stated in the circular to be despatched to the Shareholders which shall contain, inter alia, details of the Capital Reorganisation.

Upon the Share Consolidation becoming effective, the authorised share capital of the Company will be US\$80,000,000 comprising 2,000,000,000 Consolidated Shares with a par value of US\$0.04 each, of which 1,688,278,117 Consolidated Shares will be in issue. All Consolidated Shares will rank pari passu in all respects with each other.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following conditions:

- (i) the passing by the Shareholders of an ordinary resolution to approve the Share Consolidation at the EGM; and
- (ii) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares in issue and to be issued upon the Share Consolidation becoming effective.

Possible Adjustment to the Convertible Notes and the Share Options

As at the date of this announcement, the Company has Convertible Notes in the aggregate principal amount of HK\$364,000,000 entitling the holder thereof to subscribe for up to an aggregate of 1,080,000,000 Existing Shares, and outstanding Share Options entitling the holder thereof to subscribe for up to an aggregate of 588,700,000 Existing Shares.

The Share Consolidation may cause adjustments to (i) the conversion price and the number of Consolidated Shares to be issued pursuant to the terms and conditions of the Convertible Notes; and (ii) the subscription price and the number of Consolidated Shares to be issued under the Share Options. Further details of such adjustment, if required to be made, will be disclosed in the circular to be despatched to the Shareholders which shall contain, inter alia, details of the Capital Reorganisation in due course.

Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for granting the listing of and permission to deal in the Consolidated Shares and the Consolidated Shares which fall to be issued upon conversion of the Convertible Notes and exercise of the Share Options.

Save for the Convertible Notes and the Share Options, there are no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convertible or exchangeable into Existing Shares as at the date of this Announcement.

Reasons for the Share Consolidation

As set out in the announcement of the Company dated 29 May 2009, pursuant to Rule 17.76 of the GEM Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01, the Stock Exchange reserves the right to require such issuer either to change the trading method or to proceed with a consolidation of its securities. With reference to the recent trading price of the Existing Shares, the Board proposes to implement the Share Consolidation. It is expected that the Share Consolidation will bring about a corresponding upward adjustment in the trading price of the Consolidated Shares on the Stock Exchange.

Free Exchange of Share Certificates

Should the Share Consolidation become effective, Shareholders may, during the period from 1 September 2009 to 8 October 2009 (the dates are tentative), submit certificates for Existing Shares in grey color to the Company's branch registrar in Hong Kong, 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, for new share certificates in green colour for Consolidated Shares. Thereafter, certificates for Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for Consolidated Shares. Nevertheless, certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time at the expense of the Shareholders.

PROPOSED CAPITAL REDUCTION AND SUBDIVISION

Subject to the Share Consolidation becoming effective, the Board proposes to effect the Capital Reduction pursuant to which the par value of each of the issued Consolidated Shares be reduced from US\$0.04 each by cancelling the paid up capital to the extent of US\$0.03 per issued Consolidated Share so that each issued Consolidated Share shall become one fully paid up New Share in the capital of the Company and any liability of the holders of such shares to make any further contributions to the capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital hereby cancelled be made available for issuance of New Shares of the Company so that the authorised capital of the Company of US\$80,000,000 remains unchanged.

Immediately following and subject to the Capital Reduction becoming effective, each authorised but unissued Consolidated Share will also be subdivided into 4 New Shares with a par value of US\$0.01 each.

On the basis of the existing issued share capital of the Company and assuming no further issue of new Existing Shares from the date of this announcement up to the date on which the Share Consolidation becoming effective and assuming no further issue of Consolidated Shares after the Share Consolidation becoming effective and up to the date on which the Capital Reduction and the Subdivision becoming effective, the authorised share capital of the Company will be US\$80,000,000 divided into 8,000,000,000 New Shares with a par value of US\$0.01 each, the issued share capital of the Company will be US\$16,882,781.17 divided into 1,688,278,117 New Shares with a par value of US\$0.01 each. All New Shares will rank pari passu in all respects with each other.

Conditions of the Capital Reduction and the Subdivision

The Capital Reduction and the Subdivision are conditional upon the following conditions:-

- (i) the Share Consolidation becoming effective;
- (ii) the passing by the Shareholders of a special resolution to approve the Capital Reduction and the Subdivision at the EGM;
- (iii) the confirmation by the Court and the registration by the Registrar of Companies in the Cayman Islands of an official copy of the Court order and the minutes containing the particulars required under the Companies Law;
- (iv) compliance with any conditions imposed by the Court; and
- (v) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation becoming effective.

Application will be made by the Company to the GEM Listing Committee of the Stock Exchange for granting the listing of and permission to deal in the New Shares and the New Shares which fall to be issued upon conversion of the Convertible Notes and the exercise of the Share Options.

Effect of the Capital Reduction

As at the date of this announcement, the share capital of the Company consists of 6,753,112,470 Existing Shares in issue and the aggregate nominal value of the issued share capital of the Company is approximately US\$67,531,124.70. On the basis of 6,753,112,470 Existing Shares in issue and assuming that no further Existing Shares are issued from the date hereof until the effective date of the Capital Reorganisation, a credit of approximately US\$50,648,343.53 will arise in the books of the Company as a result of the Capital Reduction.

As at the date of this announcement, the Company has Convertible Notes in the aggregate principal amount of HK\$364,000,000. Assuming there is an immediate exercise in full of the conversion rights attaching to the 2007 Convertible Notes in the aggregate principal amount of HK\$160,000,000 at the conversion price of HK\$0.40 per Existing Share by all holders of the 2007 Convertible Notes, an additional 400,000,000 new Existing Shares would be issued by the Company and an additional credit of US\$3,000,000 would arise in the books of the Company as a result of the Capital Reduction. Assuming there is an immediate exercise in full of the conversion rights attaching to the 2008 Convertible Notes in the aggregate principal amount of HK\$204,000,000 at the conversion price of HK\$0.30 per Existing Share by all holders of the 2008 Convertible Notes, an additional 680,000,000 new Existing Shares would be issued by the Company and an additional credit of US\$5,100,000 would arise in the books of the Company as a result of the Capital Reduction.

As at the date of this announcement, the Company has 588,700,000 outstanding Share Options. Assuming there is an immediate exercise in full of subscription rights attaching to the Share Options by the holders thereof, an additional 588,700,000 new Existing Shares would be issued by the Company and an additional credit of US\$4,415,250 would arise in the books of the Company as a result of the Capital Reduction.

All the total credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company. The utilization of the account will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

Reasons for the Capital Reduction and Subdivision

Assuming the Capital Reorganisation is implemented, the total credit arising from the Capital Reduction will be credited to a distributable reserve account of the Company. The utilization of the account will be applied for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company. The Subdivision is necessary so that the par value of all unissued New Shares will be equal to that of the issued New Shares. Based on the unaudited accumulated losses as at 31 March 2009, the unaudited accumulated losses of the Company will be fully eliminated upon the Capital Reorganisation becoming effective. The Directors believe that implementation of the

Capital Reorganisation will therefore bring forward the date upon which the Company is in a position to declare dividends.

Free Exchange of Certificates For New Shares

Subject to the Capital Reduction becoming effective, Shareholders may, during the period from 2 February 2010 to 2 March 2010 (the dates are tentative) submit certificates in green colour for the then Consolidated Shares to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange, at the expense of the Company, for new share certificates in blue colour for New Shares. Thereafter, certificates for the then Consolidated Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for New Shares. Nevertheless, certificates for the then Consolidated Shares will continue to be good evidence of legal title and may be exchanged for certificates for New Shares at any time at the expense of the Shareholders.

Effect of The Capital Reorganisation

Implementation of the Capital Reorganisation would not, of itself, alter the underlying assets, liabilities, businesses, management or financial position of the Group or the rights of the Shareholders, except for payment of the related expenses and any fractional Consolidated Shares to which Shareholders may be entitled. After the Capital Reorganisation becomes effective, the board lot size of the shares in the Company for trading on the Stock Exchange would remain as 8,000. The New Shares will rank *pari passu* in all respects with each other.

Timing

The Capital Reorganisation is subject to the Court's approval. The Capital Reorganisation will become effective after the Court's approval and compliance with the conditions (if any) imposed by the Court. As the Court hearing dates have yet to be fixed, the effective date of the Capital Reorganisation as set out in the timetable below is tentative only.

GENERAL

The Group is principally engaged in environmental protection and new energy businesses.

A circular containing details of the Capital Reorganisation and a notice convening the EGM to approve, among other things, the Capital Reorganisation, will be dispatched to Shareholders as soon as practicable. No Shareholder is required to abstain from voting on the Capital Reorganisation at the EGM.

EXPECTED TIMETABLE

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

Despatch of circular and notice and EGM Friday, 7 August 2009

Latest time for lodging forms of proxy for EGM 10:30 a.m. on
Saturday, 29 August 2009

Date of EGM 10:30 a.m. on Monday, 31 August 2009

Announcement of results of EGM Monday, 31 August 2009

The following events are conditional on the results of the EGM. The dates are therefore tentative.

Effective date for the Share Consolidation. Tuesday, 1 September 2009

Original counter for trading in Existing Shares in board
lots of 8,000 Existing Shares to be closed 9:30 a.m., Tuesday, 1 September 2009

Temporary counter for trading in Consolidated Shares
in the board lots of 2,000 Consolidated Shares
(in form of existing share certificates) to be opened 9:30 a.m., Tuesday, 1 September 2009

Dealing in Consolidated Shares commences 9:30 a.m., Tuesday, 1 September 2009

First day for free exchange of existing share
certificate for new share certificates for the
Consolidated Shares commences Tuesday, 1 September 2009

Designated broker starts to stand in the market to
provide matching service for the sale and
purchase of odd lots of Consolidated Shares 9:30 a.m., Tuesday, 15 September 2009

Original counter for trading in Consolidated Shares
(in the board lots of 8,000 Consolidated Shares)
to be re-opened. 9:30 a.m., Tuesday, 15 September 2009

Parallel trading in Consolidated Shares
(in form of new and existing certificates) begins 9:30 a.m., Tuesday, 15 September 2009

Temporary counter for trading in Consolidated Shares
in the board lots of 2,000 Consolidated Shares
(in form of existing share certificates) to be closed 4:00 p.m., Tuesday, 6 October 2009

Parallel trading in Consolidated Shares
(in form of new and existing certificate) ends 4:00 p.m., Tuesday, 6 October 2009

Designated broker ceases to stand in the market
to provide matching service for the sale and
purchase of odd lots of Consolidated Shares 4:10 p.m., Tuesday, 6 October 2009

Last day of free exchange of existing share
certificates for new share certificates Thursday, 8 October 2009

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

Effective date for the Capital Reduction and the Subdivision Monday, 1 February 2010

First day for free exchange of then share certificate
for new share certificates for New Shares
(one day after the effective date due to time
difference between Hong Kong and the Cayman Islands) Tuesday, 2 February 2010

Last day for free exchange of the then share
certificates for new share certificates for New Shares Tuesday, 2 March 2010

All times and dates in this announcement refer to Hong Kong local times and dates. Dates or deadlines specified in expected timetable above depends on the results of the EGM and the relevant Court hearings and are therefore tentative only.

DEFINITIONS

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

“2007 Convertible Notes”	the zero coupon convertible notes due 2012 issued by the Company on 7 November 2007 in the aggregate principal amount of HK\$160,000,000, details of which were disclosed in the Company’s circular dated 3 October 2007
“2008 Convertible Notes”	the zero coupon convertible notes due 2013 issued by the Company on 31 March 2008 in the aggregate principal amount of HK\$204,000,000, details of which were disclosed in the Company’s circular dated 29 February 2008
“Board”	the board of Directors

“Capital Reduction”	the proposed reduction of the nominal value of each issued Consolidated Share from US\$0.04 each to US\$0.01 each
“Capital Reorganisation”	the proposed capital reorganisation which involves the Share Consolidation, the Capital Reduction and the Subdivision
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the GEM
“Companies Law”	The Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Consolidated Shares”	ordinary shares of US\$0.04 each in the share capital of the Company resulting from the Share Consolidation but prior to the Capital Reduction
“Convertible Notes”	the 2007 Convertible Notes and the 2008 Convertible Notes
“Court”	the Grand Court of the Cayman Islands
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of approving, inter alia, the Capital Reorganisation
“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 GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“New Shares”	ordinary share(s) of US\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Share Consolidation”	the proposed consolidation of every 4 Existing Shares in the issued and unissued share capital of the Company into one Consolidated Share
“Share Options”	the outstanding share options granted by the Company pursuant to the share option scheme adopted by the Company on 22 November 2001
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivision”	the subdivision of each authorised but unissued Consolidated Shares into 4 New Shares
“US\$”	United States dollars, the lawful currency of the United States of America

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

Hong Kong, 4 August 2009

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 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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