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

If you have sold or transferred all your shares in China Ground Source Energy Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CGS

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

PROPOSAL FOR CAPITAL REORGANISATION

A letter from the board is set out on pages 4 to 8 of this circular. A notice convening the EGM of the Company to be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Wednesday, 23 March 2011 at 11 a.m. is set out on pages 9 to 11 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Service Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

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

28 February 2011

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

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

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

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:–

“Announcement”	the announcement issued by the Company on 14 February 2011 relating to the Capital Reorganisation
“Articles”	the articles of association of the Company, as amended from time to time
“Board”	the board of Director
“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 reorganisation of the share capital of the Company by way of the Capital Reduction and Share Subdivision as referred to in this circular
“Cayman Islands Court”	the Grand Court of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“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)”	the director(s) of the Company
“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
“EGM”	the extraordinary general meeting of the Company to be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Wednesday, 23 March 2011 at 11 a.m. or any adjourned meeting thereof, notice of which is set out on pages 9 to 11 of this circular

DEFINITIONS

“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	25 February 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“New Share(s)”	ordinary share(s) of US\$0.01 each in the capital of the Company upon the Capital Reorganisation becoming effective
“Registrar”	the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Service Limited
“Share(s)”	the Existing Share(s) or, as the case may be, the New Share(s)
“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
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“US\$”	US dollar(s), the lawful currency of United States of America
“%”	per cent

EXPECTED TIMETABLE

The following expected timetable takes into account the Cayman Islands Court procedures for the Capital Reorganisation and tentative timing relating thereto. The expected timetable is therefore indicative only and is subject to changes including changes caused by the Cayman Islands Court. Further announcement will be made in the event of any such changes.

2011

Latest time for lodging form of proxy in respect of the Extraordinary General Meeting	11:00 a.m. Monday, 21 March
EGM	11:00 a.m. Wednesday, 23 March
Announcement of results of the EGM on the GEM website to be made on	Thursday, 24 March
Effective date of the Capital Reorganisation (<i>Note 1</i>)	Thursday, after 4:00 p.m. on 23 June
Dealings in the New Shares on GEM commence.	Friday, 9:30 a.m. on 24 June
First day for free exchange of certificates for Existing Shares for new certificates for New Shares	Friday, 24 June
Last day for free exchange of certificates for Existing Shares for new certificates for New Shares	Monday, 1 August

Notes:

1. Unless otherwise stated, all references in this circular to times and dates are references to Hong Kong times. The Capital Reorganisation will become effective when it is confirmed by the Cayman Islands Court and a copy of the order of the Cayman Islands Court and the minute of the order approved by the Cayman Islands Court containing the particulars required under the Companies Law are filed and registered with the Registrar of Companies in the Cayman Islands. Registration is currently expected to take place between 9:00 a.m. and 5:00 p.m. on 23 June 2011 (Cayman Islands time) (equivalent to between 10:00 p.m. on 23 June 2011 and 6:00 a.m. on 24 June 2011 (Hong Kong time)).

LETTER FROM THE BOARD

CGS

CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

Executive Directors:

Ms. Chan Wai Kay, Katherine

Mr. Xu Shengheng

Mr. Wu Shu Min

Mr. Jeffrey Soo Kim Fui

Registered office:

Scotia Centre, 4th Floor

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

Non-executive Director:

Mr. Fu Hui Zhong

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

Independent non-executive Directors:

Ms. Laura Chan Man Kuen

Mr. Jia Wenzeng

Mr. Paul Chow Wan Hoi

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

28 February 2011

*To the Shareholders, and for reference only,
the holders of the options of the Company*

Dear Sir or Madam,

CAPITAL REORGANISATION

1. INTRODUCTION

The Board announced on 14 February 2011 that proposals would be put forward to the Shareholders for the Capital Reorganisation.

The principal purpose of this circular is to provide you with further information relating to the Capital Reorganisation and the notice convening the EGM at which resolutions will be proposed to approve the Capital Reorganisation.

LETTER FROM THE BOARD

2. PROPOSAL FOR CAPITAL REORGANISATION

As at the Latest Practicable Date, 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 Articles and all applicable laws and as the Board considers appropriate, including the elimination of the accumulated loss of the Company; and
- (iii) the share subdivision of each of the authorised but unissued Existing Shares 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 total amount of 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 and be applied for such purposes as permitted by the Articles and all applicable laws and as the Board considers appropriate, including the elimination of the accumulated loss 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.

LETTER FROM THE BOARD

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.

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.

Free exchange of certificates for New Shares

On the Capital Reorganisation becoming effective, Shareholders may submit existing share certificates to the Company's Registrar at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange for certificates for the New Shares during the period from Friday, 24 June 2011 to Monday, 1 August 2011 (both dates are tentative). Shareholders should note that unless the relevant existing share certificates are lodged with Registrar at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong by Monday, 1 August 2011, a charge of HK\$2.50 (or such higher amounts as may from time to time be allowed by the Stock Exchange) will be made on the issue of every new share certificate for the New Shares or cancellation of every existing share certificate. New share certificates will be issued in the colour of blue to distinguish from the existing share certificates in the colour of green. Existing share certificates will continue to be good evidence of title and valid for delivery, trading and settlement purposes, and may be lodged with the Registrar at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong for exchange for certificates for New Shares at any time after the effective date of the Capital Reorganisation, subject to the charge described above if lodged after Monday, 1 August 2011.

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.

LETTER FROM THE BOARD

Application for listing

An application will be made to the Stock Exchange by the Company for the grant of the listing of, and permission to deal in, the New Shares in issue at the time when the Capital Reorganisation becoming unconditional and effective.

Subject to the granting of the listing of, and permission to deal in, the New Shares on GEM, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Existing Shares are listed and dealt in on GEM. No part of the Company's securities are listed or dealt in on any other stock exchange, nor application for the listing of or permission to deal in the Existing Shares and the New Shares on any other stock exchange is being or proposed to be sought.

3. EGM

A notice convening the EGM to be held at Room 1301, York House, The Landmark, 15 Queen's Road Central, Central, Hong Kong on Wednesday, 23 March 2011 at 11 a.m. is set out on pages 9 to 11 of this circular for the purpose of considering and, if thought fit, passing the resolutions in respect of, inter alia, the Capital Reorganisation.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Registrar as soon as possible but in any event, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

LETTER FROM THE BOARD

4. RECOMMENDATION

Having regard to the information described above, the Board is of the opinion that the Capital Reorganisation is in the interest of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of all resolutions to approve the Capital Reorganisation.

5. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, controlling Shareholder or substantial Shareholders or any of their respective associates had any interests in a business which competes or may compete with the business of the Group or has, any other conflict of interest which any such person has or may have within the Group.

6. ADDITIONAL INFORMATION

As at the Latest Practicable Date, the Company had 262,817,000 share options remained outstanding. The Directors confirm that there will not be any adjustment effects on the outstanding options upon the Capital Reorganisation becoming effective.

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

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

NOTICE OF EGM

CGS

CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of China Ground Source Energy Limited (the “**Company**”) will be held at Room 1301, York House, The Landmark, 15 Queen’s Road Central, Central, Hong Kong on Wednesday, 23 March 2011 at 11:00 a.m., for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution as a special resolution of the Company:

SPECIAL RESOLUTION

“**THAT** conditional upon (i) approval of the Capital Reduction (as defined below) by the Grand Court of the Cayman Islands (the “**Court**”); (ii) registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction (as defined below) and the minute approved by the Court containing the particulars required under the Companies Law of the Cayman Islands in respect of the Capital Reduction (as defined below) and compliance with any conditions as may be imposed by the Court in relation to the Capital Reduction (as defined below); and (iii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares (as defined below) in issue, upon the date (the “**Effective Date**”) on which the aforesaid conditions are fulfilled:

- (a) the issued and paid up share capital of the Company be reduced (“**Capital Reduction**”) by cancelling the paid-up capital to the extent of US\$0.03 on each existing shares of US\$0.04 of the Company (“**Existing Shares**”) in issue so that each issued Existing Share of US\$0.04 each of the Company be treated as one fully paid-up share of US\$0.01 par value each (“**New Share(s)**”) in the share capital of the Company and any liability of the holders of such shares to make any further contribution to the capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital thereby cancelled be made available for issue of new shares of the Company;
- (b) the credit arising from the Capital Reduction shall be applied for such purposes as permitted by the articles of association of the Company and all applicable laws, including the elimination of the accumulated loss of the Company;

NOTICE OF EGM

- (c) immediately following the Capital Reduction, each authorized but unissued share of the Company of par value of US\$0.40 each shall be sub-divided into four (4) New Shares of par value of US\$0.01 each (“**Share Subdivision**”);
- (d) all of the New Shares resulting from the Capital Reduction and Share Subdivision shall rank pari passu in all respects and have the rights and privileges and be subject to the restrictions contained in the Company’s articles of association; and
- (e) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Capital Reorganisation.

For the purpose of this resolution, “**Capital Reorganisation**” shall mean the steps as set out in the above paragraphs (a), (b), (c) and (d) collectively.”

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

Hong Kong, 28 February 2011

Principal Place of Business and Head Office:
Room 1301, York House,
The Landmark,
15 Queen’s Road Central,
Central,
Hong Kong.

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

NOTICE OF EGM

Notes:

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