

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
Financial Services Division

CAUSE NO. FSD 90 OF 2011

IN THE MATTER OF **China Ground Source Energy Limited**

**AND** in the matter of the Companies Law (2010 Revision)

**AND** the Grand Court Rules 1995 Order 102

PETITION

TO: The Grand Court of the Cayman Islands

**THE PETITION** of **China Ground Source Energy Limited** (中國地能有限公司) shows as follows:

1. The object of this Petition is to seek an Order of the Court pursuant to section 15 of the Companies Law (2010 Revision) (the "Companies Law") confirming a reduction of the share capital of your Petitioner **China Ground Source Energy Limited** (the "Company").
2. The Company was incorporated under the Companies Law on 14 December, 1999 with the name "IIN INTERNATIONAL LIMITED" and registered in the Cayman Islands as an exempted company with registration number 94994. On 3 April, 2008, the name of the Company was changed from "IIN INTERNATIONAL LIMITED" to "China Ground Source Energy Limited (中國地能有限公司)". The Company is an investment holding company, and through its subsidiaries and associated companies, is principally engaged in the business of provision and installation of shallow ground energy utilisation system.
3. The registered office of the Company is situated at the offices of Offshore Incorporations (Cayman) Limited, Scotia Centre, 4<sup>th</sup> Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.



4. Upon the date of incorporation of the Company, its authorised share capital was US\$300,000.00 divided into 30,000,000 ordinary shares with a nominal or par value of US\$0.01 each (the "Shares").
5. On 17 December, 1999, an ordinary resolution in writing was passed by the sole shareholder of the Company to subdivide one Share with a par value of US\$0.01 each into ten (10) Shares with a par value of US\$0.001 each.
6. On 22 November, 2001, ordinary resolutions in writing was passed by all the shareholders of the Company to:
  - (a) consolidate every ten (10) existing Shares with a par value of US\$0.001 each in the issued and unissued share capital of the Company into one (1) Share with a par value of US\$0.01 each; and
  - (b) increase the authorised share capital of the Company from US\$300,000 divided into 30,000,000 Shares to US\$20,000,000 divided into 2,000,000,000 Shares with a par value of US\$0.01 each.
7. On 4 July, 2007, an ordinary resolution was passed by the shareholders of the Company at its general meeting to increase the authorised share capital of the Company from US\$20,000,000 to US\$50,000,000 divided into 5,000,000,000 Shares with a par value of US\$0.01 each.
8. On 10 December, 2007, an ordinary resolution was passed by the shareholders of the Company at its general meeting to increase the authorised share capital of the Company from US\$50,000,000 to US\$80,000,000 divided into 8,000,000,000 Shares with a par value of US\$0.01 each.
9. On 1 February, 2010, an ordinary resolution was passed by the shareholders of the Company at its general meeting to:

- (a) consolidate every four (4) existing Shares with a par value of US\$0.01 each in the issued and unissued share capital of the Company into one (1) Share with a par value of US\$0.04 each; and
  - (b) increase the authorised share capital of the Company from US\$80,000,000 to US\$160,000,000 divided into 4,000,000,000 Shares with a par value of US\$0.04 each.
10. The Shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 November, 2001. Over the years, the Company has allotted and issued various tranches of ordinary shares, being the only class of shares of the Company in issue. As at the date of this Petition, the authorised share capital of the Company is US\$160,000,000 divided into 4,000,000,000 Shares with a par value of US\$0.04 each and its issued share capital is US\$82,612,284.68 divided into 2,065,307,117 Shares with a par value of US\$0.04 each.
11. The objects for which the Company was established are unrestricted.
12. The Articles of Association of the Company provide, *inter alia*, as follows:
- "Article 4. The Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:
- (a) Increase its capital by such sum, to be divided into shares of such amounts, as the resolutions shall prescribe;
  - (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
  - (c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of

any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";

(d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum of association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;

(e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.

Article 6. The Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any share premium account or any capital redemption reserve or other undistributable reserve in any manner permitted by law."

13. By a special resolution of the Company (the "Special Resolution") duly passed in accordance with section 14(1) of the Companies Law (2010 Revision) at an extraordinary general meeting held on 23 March, 2011 (the "Extraordinary General Meeting"), it was resolved:

"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 issued Existing Share 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 with a par value of US\$0.01 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;
- (c) immediately following the Capital Reduction, each authorized but unissued share of the Company with a par value of US\$0.04 each shall be sub-divided into four (4) New Shares with a 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 paragraph (a), (b), (c) and (d) collectively."

14. The number of members of the Company present and voting in person or by corporate representatives or by proxy at the Extraordinary General Meeting is as set out in the table below:-

	<b>Present &amp; Voting</b>	<b>For</b>	<b>Against</b>
<b>How Present</b>	<b>Number of shares voted</b>	<b>Number of shares voted</b>	<b>Number of shares voted</b>
In person/by corporate representatives	5 members	887,648,750 shares	0 share
By proxy	0 member	0 share	0 share
<b>Total</b>	<b>5 members</b>	<b>887,648,750 shares</b>	<b>0 share</b>

The Special Resolution was presented to the meeting and voted on by way of a poll. The members present and voting in person or by corporate representative or by proxy, representing 100% of the votes cast, voted to approve the Special Resolution and the chairman of the Extraordinary General Meeting declared the resolution passed in accordance with the Articles of Association of the Company.

15. The Company had an audited consolidated accumulated loss of about HK\$412,766,000 for the year ended 31 March, 2010. Based on the latest unaudited accounts of the Company prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") for the period ended 31 December, 2010, there were unaudited accumulated losses of approximately HK\$369,843,000. The credit arising from the Capital Reduction will be applied against the accumulated losses of the Company or for such purposes as

permitted by the articles of association of the Company and all applicable laws. It is expected that the entire accumulated losses of the Company will be eliminated after the Capital Reduction. The credit arising from the Capital Reduction will also be credited to a distributable reserve account of the Company. As a result of such offset of accumulated losses and increase in a distributable reserve account, the Company's capital and reserves will more closely reflect the available net assets of the Company and would give the Company a capital structure that should, subject to performance, permit the payment of dividends as and when the directors of the Company consider it appropriate in the future. Accordingly, the board of the Company is of the view that the Capital Reorganisation is beneficial to the Company and the shareholders as a whole.

16. The proposed Capital Reduction does not involve either the diminution of any liability in respect of unpaid capital and the Company has no intention to make any payment of paid up capital to any shareholder. Furthermore, the proposed Capital Reduction will not alter the underlying assets, business operations, management or financial position of the Company nor will it affect the proportionate interests of the shareholders of the Company.
17. The form of Minute proposed to be registered is as follows:-

*"The issued share capital of China Ground Source Energy Limited (the "Company") was by virtue of a Special Resolution passed on 23 March, 2011 and with the sanction of an Order of the Grand Court of the Cayman Islands dated [            ], 2011, reduced from US\$0.04 per each issued share to US\$0.01 per each issued share (the "Capital Reduction"). Immediately following the Capital Reduction, every authorised but unissued share of US\$0.04 each shall be sub-divided into four shares of US\$0.01 each in the capital of the Company fully paid up, or credited as being fully paid up. At the date of the registration of this Minute, the authorised share capital of the Company is US\$160,000,000 divided into 16,000,000,000 shares of US\$0.01 each"*

Your Petitioner, the Company, therefore prays as follows:

- (1) That the Capital Reduction of the Company proposed to be effected by the Special Resolution set forth in paragraph 13 of this Petition may be confirmed and that the above-mentioned Minute may be approved by the Court.
- (2) That to this end, all necessary inquiries and directions may be made and given.
- (3) Such further and other order as this Honourable Court shall think fit.

NOTE: It is intended to serve this Petition on China Ground Source Energy Limited, at its registered office located at the offices of Offshore Incorporations (Cayman) Limited, Scotia Centre, 4<sup>th</sup> Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

DATED THIS 10<sup>th</sup> DAY OF May, 2011.

*Conyers Dill & Pearman*

**CONYERS DILL & PEARMAN**  
**Attorneys-at-Law for the Petitioner herein**

Notice of Hearing

This Petition having been presented to the Court on the \_\_\_\_\_ day of \_\_\_\_\_, 2011 will be heard at the Law Courts, George Town, Grand Cayman on the \_\_\_\_\_<sup>th</sup> day of \_\_\_\_\_, 2011 at \_\_\_\_\_ am/pm or as soon thereafter as the Petition can be heard.

This Petition was filed by Conyers Dill & Pearman, Attorneys-at-Law for and on behalf of the Applicant herein whose address for service is that of its Attorneys, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.