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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)

**DISCLOSEABLE TRANSACTION
SUBSCRIPTION OF SHARES OF
BEIJING ENTERPRISES EVER SOURCE ENERGY LIMITED
AND
CAPITAL INJECTION INTO EVER SOURCE
TECHNOLOGY DEVELOPMENT COMPANY LIMITED**

On 30 July 2009, ES Technology, an indirectly wholly owned subsidiary of the Company, subscribed for 1,025,641,030 new shares of ES Energy for a consideration of HK\$80,000,000. The Subscription Money will be used by ES Energy to contribute to the registered capital of ES Development.

Immediately before the Subscription, ES Energy was owned as to approximately 93.64% by ES Technology and approximately 6.36% by Global Dynamic Services Limited. The shareholding interest of ES Technology in ES Energy has been increased to 99.97% after the Subscription. Immediately before the Capital Injection becoming effective, ES Development is owned as to approximately 91.41% by ES Energy and approximately 8.59% by SiBoLian. Immediately after the Capital Injection becoming effective, the equity interest of ES Energy in ES Development will be increased to 94.61%.

The Subscription and the Capital Injection constitute a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules which is subject to the reporting and announcement requirements.

THE SUBSCRIPTION

On 30 July 2009, ES Technology, an indirectly wholly owned subsidiary of the Company subscribed for 1,025,641,030 new shares of ES Energy for a total consideration of HK\$80,000,000 in cash which has been financed by internal resource of the Company. The Subscription Shares represent approximately 22,381% of the existing issued share capital of ES Energy and approximately 99.97% of the issued share capital of ES Energy as enlarged by the issue of the Subscription Shares.

Immediately before the Subscription, ES Energy was owned as to approximately 93.64% by ES Technology and approximately 6.36% by Global Dynamic Services Limited. The shareholding interest of ES Technology in ES Energy has been increased to 99.97% and the shareholding interest of Global Dynamic Services Limited in ES Energy has been diluted to 0.03% after completion of the Subscription. ES Energy would continue to be a subsidiary of the Company after completion of the Subscription. Accordingly, its assets, liabilities and results would continue to be consolidated with those of the Group.

The Subscription Money will be used by ES Energy for the Capital Injection.

CAPITAL INJECTION

Pursuant to an approval dated 9 July 2009 issued by 中關村科技園區海淀園管理委員會, ES Development was approved to increase its registered capital from RMB118,685,285 to RMB189,188,502 and the increased portion of RMB70,503,217 shall be contributed by ES Energy in cash. In this connection, ES Energy and SiBoLian entered into the Capital Injection Agreement on 2 July 2009 to regulate their respective rights and obligations in relation to the Capital Injection. The major terms of the Capital Injection Agreement are summarised below:

Parties: (1) ES Energy; and
 (2) SiBoLian

Date: 2 July 2009

Capital Injection: ES Energy shall contribute RMB70,503,217 to ES Development, the amount of which shall be payable upon the application for registration of change of registered capital, thereby increasing its equity interest in ES Development from 91.41% to 94.61%, while the capital contribution of SiBoLian remains the same and its equity interest in ES Development shall be diluted from 8.59% to 5.39% as a result of the Capital Injection.

To the best knowledge of the Directors, SiBoLian is principally engaged in technology development and services in water pumping station project, mechanical pumping valve and industrial automatic control equipment. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save and except SiBoLian's interest in ES Development, SiBoLian and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons (having the meaning ascribed to it under the Listing Rules).

SUBJECT MATTER

Immediately before the Capital Injection becoming effective, the registered capital of ES Development is RMB118,685,285 and is owned as to approximately 91.41% by ES Energy and approximately 8.59% by SiBoLian. The total investment of ES Development is RMB118,685,285.

Pursuant to an approval dated 9 July 2009 issued by 中關村科技園區海淀園管理委員會, ES Development was approved to increase its registered capital from RMB118,685,285 to RMB189,188,502 and the increased portion of RMB70,503,217 shall be contributed by ES Energy in cash before 8 August 2009. ES Energy will fund the Capital Injection with the Subscription Money.

Immediately after the Capital Injection becoming effective, the registered capital of ES Development will be increased to RMB189,188,502 and will be owned as to approximately 94.61% by ES Energy and approximately 5.39% by SiBoLian. The total investment of ES Development will also be increased to RMB189,188,502 immediately after the Capital Injection becoming effective. ES Development will continue to be a subsidiary of the Company after the Capital Injection becoming effective. Accordingly, its assets, liabilities and results will continue to be consolidated with those of the Group.

The capital injected by ES Energy in ES Development is intended to be applied to the initial investment and development of low-carbon eco-property model projects primarily using shallow ground energy as alternative energy for heating which is in line with the energy saving and environmental protection policy of the PRC government and will promote the application of shallow ground energy as alternative energy in urban and rural area.

CONDITION OF THE CAPITAL INJECTION

Pursuant to the Capital Injection Agreement, the Capital Injection will only become effective after the obtaining of the approval from the Administration for Industry and Commerce of the PRC.

PROFIT SHARING AND DISTRIBUTION UPON LIQUIDATION

After the Capital Injection becoming effective, all profits or loss arising from all future projects to be developed by ES Development shall be shared by ES Energy and SiBoLian in the proportion of the shareholding after the Capital Injection becoming effective (i.e. approximately 94.61% to ES Energy and 5.39% by SiBoLian). In the event of termination of the existing joint venture arrangement, the assets of ES Development (after settling all its liabilities) would be distributed to the parties in proportion to their capital contribution in ES Development after the Capital Injection becoming effective (i.e. approximately 94.61% to ES Energy and 5.39% to SiBoLian). Save as disclosed above, there is no other major change in the terms of the existing joint venture arrangement between ES Energy and SiBoLian.

INFORMATION OF ES ENERGY

ES Energy is a subsidiary of the Company incorporated in the British Virgin Islands in December 2004 and is an investment holding company. Based on the unaudited financial statements of ES Energy for the two financial years ended 31 December 2008 and 2007, the unaudited net assets value of ES Energy as at 31 December 2008 and 2007 were approximately HK\$210,596,000 and HK\$210,602,000 respectively and the unaudited net losses (both before and after taxation and extraordinary items) of ES Energy for the two years ended 31 December 2008 and 2007 are as follows:

	Year ended 31 December 2008 <i>HK\$'000</i> unaudited	Year ended 31 December 2007 <i>HK\$'000</i> unaudited
Net loss before taxation and extraordinary items	6.1	14.9
Net loss after taxation and extraordinary items	6.1	14.9

INFORMATION OF ES DEVELOPMENT

ES Development is a subsidiary of the Company and is a sino-foreign equity joint venture established in the PRC in December 2002 which is engaged in development of collection technology and utilisation of shallow ground energy as alternative energy for cooling and heating purposes. Based on the unaudited financial statements of ES Development for the two financial years ended 31 December 2008 and 2007, the unaudited net assets value of ES Development as at 31 December 2008 and 2007 were approximately RMB119,303,000 and RMB113,345,000 respectively and the unaudited net profits (both before and after taxation and extraordinary items) of ES Development for the two years ended 31 December 2008 and 2007 are as follows:

	Year ended 31 December 2008 <i>RMB'000</i> unaudited	Year ended 31 December 2007 <i>RMB'000</i> unaudited
Net profit before taxation and extraordinary items	6,188	13,297
Net profit after taxation and extraordinary items	6,188	13,297

REASONS FOR THE SUBSCRIPTION AND CAPITAL INJECTION

The principal activities of the Group are environmental protection and new energy businesses. Given the nation's highly concerned energy saving and environmental protection policy, the Directors expect that there will be strong growth potential in renewable and new energy sector. The Directors believe that Subscription will provide sufficient resources for ES Energy to increase its investment in ES Development, which is engaged in the business of development of collection technology and utilisation of shallow ground energy as alternative energy for cooling and heating purposes and will therefore allow the Group to effectively capture the potential market.

Taking into account of the above factors, the Directors (including the independent non-executive Directors) consider that the terms of the Subscription and the Capital Injection are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Subscription and Capital Injection constitute a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules which is subject to the reporting and announcement requirements.

DEFINITIONS

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

“Capital Injection”	The proposed increase in the registered capital of ES Development in the amount of RMB70,503,217 to be contributed by ES Energy
“Capital Injection Agreement”	The Agreement entered into between ES Energy and SiBoLian dated 2 July 2009 regarding the Capital Injection
“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
“Directors”	directors of the Company
“ES Development”	(恒有源科技發展有限公司) Ever Source Technology Development Company Limited, a sino-foreign equity joint venture established in the PRC and an indirect subsidiary of the Company
“ES Energy”	Beijing Enterprises Ever Source Energy Limited, a company incorporated in the British Virgin Islands and an indirect subsidiary of the Company
“ES Technology”	Beijing Enterprises Ever Source Technology Limited, a company incorporated in the Cayman Islands and an indirect subsidiary of the Company
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited
“Group”	the Company and its subsidiaries
“PRC”	the People’s Republic of China
“Shareholders”	shareholders of the Company

“SiBoLian”	(北京市四博連通用机械新技術公司) Beijing SiBoLian General Mechanical Technology Limited
“Subscription Money”	HK\$80,000,000, being the consideration of the Subscription
“Subscription Shares”	the 1,025,641,030 new shares of ES Energy subscribed by ES Technology pursuant to the Subscription
“Subscription”	subscription of 1,025,641,030 new shares of ES Energy by ES Technology for HK\$80,000,000

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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