

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

**POSSIBLE MAJOR TRANSACTION,
DEEMED DISPOSAL
AND
RESUMPTION OF TRADING**

On 20 October 2009, the Investor and BE Ever Source entered into a conditional Joint Venture Cooperation Agreement, pursuant to which the Investor has agreed to make a total capital investment of not more than RMB61,200,000 (equivalent to approximately HK\$69,768,000) into BEHP, an indirect wholly-owned subsidiary of the Company. The Joint Venture Cooperation Agreement will become effective after being approved by the organizations in higher hierarchy of the relevant parties. Upon completion of the Investment, it is expected that BEHP will cease to be a subsidiary of the Company and will be owned as to 51% by the Investor and 49% by BE Ever Source.

The Investment constitutes a deemed disposal in respect of an indirect wholly-owned subsidiary of the Company pursuant to Rule 19.29 of the GEM Listing Rules. Based on the aggregate amount of the maximum total capital investment to be contributed by the Investor and the maximum Compensation to be paid by BEHP to BE Ever Source, the consideration ratio of the Investment exceeds 25% but is less than 75% and the Investment will constitute a major transaction pursuant to the GEM Listing Rules and will be subject to the Shareholders' approval.

However, since various details of the Investment, including the exact amount of the capital investment to be contributed by the Investor, terms of the joint venture contract to be entered into in relation to BEHP and term of BEHP, have yet been finalised, the applicable percentage ratios of the Investment are still subject to change and that the Investment may or may not constitute a major transaction pursuant to the GEM Listing Rules. It is expected that details of the Investment will be agreed between the Investor and BE Ever Source within 3 months from the date of the Joint Venture Cooperation Agreement. Further announcement will be made upon the determination of such details. Should the Investment constitute a major transaction to the Company based on the final terms of the Investment, a circular containing, amongst other things, details of the Investment, together with a notice to the EGM, will be dispatched to the Shareholders as soon as possible in accordance with the relevant requirements of the GEM Listing Rules.

Trading in the Shares on the GEM was suspended from 9:30 a.m. on 21 October 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 28 October 2009.

BACKGROUND

BEHP is an indirect wholly-owned subsidiary of the Company, which has a registered capital and a total investment of US\$300,000 (equivalent to approximately HK\$2,334,000) and US\$300,000 (equivalent to approximately HK\$2,334,000) respectively. The Investor intends to invest in BEHP through its equity contribution to BEHP. For the purpose of the Investment, the relevant parties have entered into the Joint Venture Cooperation Agreement, the major terms of which are as follows:

JOINT VENTURE COOPERATION AGREEMENT

Date: 20 October 2009

Parties: (1) Investor; and

(2) BE Ever Source

To the best knowledge of the Directors, the Investor is an imported bearing machinery (devices to permit fixed direction motion between two parts of the machinery, typically rotation or linear movement) processing enterprise and is a wholly-owned subsidiary of China Southern Industrial Group (中國南方工業集團). It is principally engaged in research, development and production of national defence weapons and equipments and civilian products. The main civilian products are fire products. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Investor and its ultimate beneficial owners are third parties independent of the Company and its connected persons (having the meaning ascribed to it under the GEM Listing Rules).

CONDITION OF THE INVESTMENT

The Joint Venture Cooperation Agreement will become effective after being approved by the organizations in higher hierarchy of the relevant parties, including various government authorities in the PRC and the Shareholders, if required.

PROPOSED CAPITAL CONTRIBUTION

Upon completion of the Investment, it is expected that the total investment of BEHP will be increased to not more than RMB120,000,000 (equivalent to approximately HK\$136,800,000). The value of the existing assets of BEHP will be taken as the capital contribution of BE Ever Source in the Investment. Valuation of the assets will be carried out in due course. After the value of the existing assets of BEHP has been determined, the exact amount of capital contribution by the Investor will be determined on the basis that BEHP will be owned as to 51% by the Investor and 49% by BE Ever Source upon completion of the Investment. As such, the Investor agrees to make an additional capital investment into BEHP of not more than RMB61,200,000 (equivalent to approximately HK\$69,768,000) by way of cash and assets contribution. The exact amount of the capital investment to be contributed by the Investor will be subject to the calculation in the manner aforesaid.

Financial Effect of the Investment

Upon completion of the Investment, BEHP will cease to be a subsidiary of the Company. The Company expects to recognise a gain or loss on deemed disposal of its interest in BEHP, which is to be calculated based on, inter alia, the amount of the capital investment to be contributed by the Investor, and cannot be ascertained on the date of this announcement. The Company will make a further announcement as soon as possible after details of the Investment have been determined.

TERMS OF BEHP

Upon completion of the Investment, it is expected that BEHP will be converted from a wholly-owned foreign enterprise to a sino-foreign joint venture company with a terms of 20 years from the completion of the registration of the capital investment, but the final term shall be determined by that stated on the new business license of BEHP to be issued by the relevant authority.

BOARD COMPOSITION OF THE BEHP

The board of the BEHP, upon completion of the Investment shall comprise 5 directors and 1 supervisor. 3 directors and the chairman of the board shall be appointed by the Investor, 2 directors and 1 supervisor shall be appointed by BE Ever Source. The general manager of BEHP shall be nominated by BE Ever Source and the assistant general manager and the chief financial officer shall be nominated by BEHP, whom shall then be appointed by the board of BEHP.

NON-COMPETITION UNDERTAKING

Pursuant to the Joint Venture Cooperation Agreement, upon completion of the Investment, both the Investor and BE Ever Source shall not, without reaching prior consensus with the other party, invest, be interested or operate in any other way a company that carries out the same business as BEHP or competes with the business carried out by BEHP.

TECHNICAL COMPENSATION TO BE PAID TO BE EVER SOURCE

BEHP is the registered holder of the following patents (1) double heat source heating supply equipment (雙熱源供熱設備) with registration number 03137731.9; (2) double temperature heat pump system (雙溫熱泵系統) with registration number ZL200420058674.9; (3) dual air-conditioning equipment (複合空調設備) with registration number 032664575; (4) multi-heat source air-conditioning system (多熱源空調系統) with registration number ZL03137732.7; (5) Soil energy extraction heat pump system (提取土壤能量的熱泵系統) with registration number ZL200410086367.6 ; and (6) hydro power extraction heat pump system (提取水能量的熱泵系統) with registration number ZL200410086366.1. Pursuant to the Joint Venture Cooperation Agreement, BEHP shall pay to BE Ever Source an amount to be determined by the annual

revenue of BEHP generated by the sale of products as recognition of the contribution of BE Ever Source on the development of such patent within 10 years from the date of the completion of the Investment and the issue of the new business license of BEHP. In the event that the annual revenue of BEHP generated by the sale of products is equal to or less than RMB50,000,000 (equivalent to approximately HK\$57,000,000), the annual Compensation paid by BEHP to BE Ever Source shall be 3% of the annual revenue of BEHP generated by the sale of products. In the event that the annual revenue of BEHP generated by the sale of products is more than RMB50,000,000 (equivalent to approximately HK\$57,000,000) but equal to or less than RMB200,000,000 (equivalent to approximately HK\$228,000,000), the annual Compensation paid by BEHP to BE Ever Source shall be (a) 3% of the annual revenue of BEHP generated by the sale of products for the amount within RMB50,000,000 (equivalent to approximately HK\$57,000,000); and (b) 2% of the annual revenue of BEHP generated by the sale of products for the amount that is equal to or exceeds RMB50,000,000 (equivalent to approximately HK\$57,000,000). In the event that the annual revenue of BEHP generated by the sale of products is more than RMB200,000,000 (equivalent to approximately HK\$228,000,000), the annual Compensation paid by BEHP to BE Ever Source shall be (a) 3% of the annual revenue of BEHP generated by the sale of products for the amount within RMB50,000,000 (equivalent to approximately HK\$57,000,000); (b) 2% of the annual revenue of BEHP generated by the sale of products for the amount equal to or exceeds RMB50,000,000 (equivalent to approximately HK\$57,000,000) but is less than RMB200,000,000 (equivalent to approximately HK\$228,000,000); and (c) 1% of the annual revenue of BEHP generated by the sale of products for the amount that is equal to or exceeds RMB200,000,000 (equivalent to approximately HK\$228,000,000). In any event, the total Compensation to be paid by BEHP to BE Ever Source during the 10-year period shall not be more than RMB100,000,000 (equivalent to approximately HK\$114,000,000). Should the aggregate Compensation received by BE Ever Source reach RMB100,000,000 (equivalent to approximately HK\$114,000,000), notwithstanding whether the said 10-year period has expired, BEHP shall not be obliged to pay to BE Ever Source any Compensation.

The Compensation was determined after arm's length negotiation between BE Ever Source and the Investor taking into account the costs and expenses incurred by BE Ever Source (and its subsidiaries) in developing the patents and the expected sale revenue of BEHP had the products using these patents were developed and made available on the market by BE Ever Source alone.

BREACH OF JOINT VENTURE COOPERATION AGREEMENT

Pursuant to the Joint Venture Cooperation Agreement, a default party shall pay to the other party 0.5% of the additional capital investment of BEHP as compensation for breach of the Joint Venture Cooperation Agreement.

INFORMATION OF BEHP

As at the date hereof, BEHP is an indirect wholly-owned subsidiary of the Company established in the PRC in November 2002 and is engaged in research, development and production of cold water mechanical units, heat pump mechanical units and refrigeration air-conditioning spare parts and technology transfer of self-produced products, technical advisory and technical services; sale of self-produced products. Based on the unaudited financial statement of BEHP for the 6-month period ended 30 September 2008 and the 9-month period ended 30 June 2009 the unaudited net assets value of BEHP as at 30 June 2009 was approximately RMB16,909,137.13 (equivalent to approximately HK\$19,276,416) and the unaudited net profits (both before and after taxation and extraordinary items) of BEHP for the 6-month period ended 30 September 2008 and the 9-month period ended 30 June 2009 are as follows:

	6-months ended 30 September 2008	9-months ended 30 June 2009
	<i>(Note 1)</i>	
	<i>RMB</i>	<i>RMB</i>
	<i>(approximate HK\$)</i>	<i>(approximate HK\$)</i>
	unaudited	unaudited
Net profit before taxation and extraordinary items	755,078.84 (860,790.00)	4,437,714.00 (5,058,993.96)
Net profit after taxation and extraordinary items	499,066.28 (568,936.00)	3,923,118.00 (4,472,354.52)

Note 1: BEHP was acquired by the Group in March 2008, as such, the financial information of BEHP before 31 March 2008 is not applicable.

REASONS FOR THE INVESTMENT

The principal activities of the Group are the promotion of new energy with a focus on ground energy as an alternative energy for the supply of heat and environmental protection. Given the limitations on the existing small production scale, the production capacity and efficiency of BEHP was directly impacted and the growth of the profitability of BEHP was restrained. By introducing new investment, BEHP will have a good opportunity to expand its production capacity as well as enhancing its profitability level. In addition, with the co-operation with the Investor, BEHP will also be benefited through the introduction of personnel, management, technology and quality assurance that are possessed by the Investor. The Directors believe that the Investment will improve the productivity as well as the profitability of BEHP and in turn will enable BEHP to deliver a better return to the Group.

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

LISTING RULES IMPLICATIONS

Upon completion of the Investment, it is expected that the Investor will own 51% of the equity interest of BEHP and the Company will, through BE Ever Source, own 49% of BEHP. As a result, BEHP will cease to be a subsidiary of the Company.

The Investment constitutes a deemed disposal in respect of an indirect wholly-owned subsidiary of the Company pursuant to Rule 19.29 of the GEM Listing Rules. Based on the aggregate amount of the maximum total capital investment to be contributed by the Investor and the maximum Compensation to be paid by BEHP to BE Ever Source, the consideration ratio of the Investment exceeds 25% but is less than 75% and the Investment will constitute a major transaction pursuant to the GEM Listing Rules and will be subject to the Shareholders' approval. However, since various details of the Investment, including the exact amount of the capital investment to be contributed by the Investor, terms of the joint venture contract to be entered into in relation to BEHP and term of BEHP, have yet been finalised, the applicable percentage ratios of the Investment are still subject to change and that the Investment may or may not constitute a major transaction pursuant to the GEM Listing Rules. It is expected that details of the Investment will be agreed between the Investor and BE Ever Source within 3 months from the date of the Joint Venture Cooperation Agreement. Further announcement will be made upon the determination of such details. Should the Investment constitute a major transaction to the Company based on the final terms of the Investment, a circular containing, amongst other things, details of the Investment, together with a notice to the EGM, will be dispatched to the Shareholders as soon as possible in accordance with the relevant requirements of the GEM Listing Rules.

Trading in the Shares on the GEM was suspended from 9:30 a.m. on 21 October 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on GEM with effect from 9:30 a.m. on 28 October 2009.

DEFINITIONS

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

“BE Ever Source”	Beijing Enterprises Ever Source Technology Ltd. (北控恒有源科技有限公司), an indirect wholly owned subsidiary of the Company established in the Cayman Islands
“BEHP”	(北京永源熱泵有限責任公司) Beijing Ever Hot Pumps Co., Ltd, an indirect wholly owned subsidiary of the Company established in the PRC
“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

“Compensation”	technical compensation to be paid by BEHP to BE Ever Source as recognition of the contribution of BE Ever Source on the development of the patent owned by BEHP, details of which are described in the paragraph headed “Technical Compensation to be paid to BE Ever Source”
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve the deemed disposal as a result of the Investment
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“Investment”	the proposed increase in total capital investment of BEHP to an amount of not more than RMB120,000,000 (equivalent to approximately HK\$136,800,000) in which a maximum amount of RMB61,200,000 (equivalent to approximately HK\$69,768,000) is to be contributed by the Investor
“Investor”	(北京北機機電工業有限責任公司) Beijing BeiJi Mechanical Industrial Company Limited
“Joint Venture Cooperation Agreement”	the conditional agreement entered between the Investor and BE Ever Source dated 20 October 2009 regarding the Investment
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of the Company
“Shareholders”	shareholders of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“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, 27 October 2009

Unless otherwise specified, exchange rates used in this announcement are RMB1 to HK\$1.14 and US\$1 to HK\$7.78.

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.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication.