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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)

SIGNING OF TWO COOPERATION AGREEMENTS WITH THE GOVERNMENT OF 瓦房店市(WAFANGDIAN CITY)

The Board is pleased to announce that two cooperation agreements have been signed respectively between the Company and HYY, and the government of 瓦房店市 (Wafangdian City) related to the development of an ecological low-carbon model district in Wafangdian City and the promotion of shallow ground source energy as alternative source of energy for heating/cooling systems in the buildings in Wafangdian City.

The board of directors (the “Board”) of China Ground Source Energy Limited (the “Company” and/or “CGS”) is pleased to announce that two cooperation agreements have been signed respectively between the Company and HYY, and the government of 瓦房店市 (Wafangdian City) relating to the development of an ecological low-carbon model district in Wafangdian City and the promotion of shallow ground source energy as alternative source of energy for heating/cooling systems in the buildings in Wafangdian City.

1. Cooperation between the Company and the government of Wafangdian city in constructing an ecological low-carbon model district

A cooperation agreement (the “First Cooperation Agreement”) was signed between the Company and the government of Wafangdian City on 11 May 2010 for constructing the main district in the coastal economic area of Wafangdian City (the “Main District”) as an ecological low-carbon model district. The total area for construction as an ecological low-carbon model district is approximately 22.4 square kilometers. The Company shall assist in land development in the Main District by formulating the overall planning of land use in Wafangdian City and the blueprints of the land use planning, city overall planning, and controls planning in the Main District. The Company will be responsible for the site formation works and construction works on such lands in order to transforming such lands to be qualified for sale in the market and/or being accepted by the government of Wafangdian City for inclusion in the land reserves exchange. This land transformation works consignment will be for a term of 10 years.

Pursuant to the First Cooperation Agreement, the Company shall carry out site formation and ground works for utilities (e.g. water, electricity and gas, etc.) installations in the 22.4 square kilometers of land reserves in the Main District, and additionally install (a) ground source energy heat pump systems as alternative source of energy for heating/cooling systems; and (b) rain water recycling system as part of the ground works for such site formation.

The government of Wafangdian City shall, after completion of the site formation and ground works for utilities installations in the Main District, pay to the Company (a) all the costs incurred or paid by the Company in site formation and utilities installations plus finance charges (the “Formation Cost”); (b) a management fee calculated correspondently based on the Formation Cost; and (c) part of the premium (that is, the difference between the selling price and the Formation Cost) gained when the land is sold by public auction.

2. Regional promotion of shallow ground source energy as alternative source of energy for heating in Wafangdian City

The Board is pleased to announce that following the cooperation with the government of 新賓滿族自治縣 (Xinbin Manchu Autonomous County) as announced in the Company’s announcement dated 16 April 2010, HYY has again successfully secured the cooperation and support of the government of Wafangdian City to promote HYY ground source energy heat pump systems as alternative source of energy for the heating systems for all buildings in Wafangdian City.

On 11 May 2010, a cooperation agreement (the “Second Cooperation Agreement”) was entered into between Ever Source Scientific and Technology Development Co., Ltd. (“HYY”), a subsidiary of the Company, and the government of Wafangdian City for the promotion of HYY ground source energy heat pump systems as alternative source of energy for the heating systems for all buildings in the city in order to transforming the city into an ecological low-carbon model city of the nation. Pursuant to the Second Cooperation Agreement, for an initial term of 10 years commencing from 11 May 2010, the government of Wafangdian City shall adopt to promote shallow ground source energy as alternative source of energy for the heating systems of all newly constructed and existing buildings in Wafangdian City through promulgation of rules and policies.

Further, as a national new energy model city, the government of Wafangdian City shall ensure at least 300,000 square meters of construction area will adopt ground source energy as alternative source of energy for heating in average annually.

HYY undertakes to supply economical ground source energy heat pump systems with stable quality and set up operational quality assurance systems for guaranteeing the level of services to those who adopted ground source energy as alternative source of energy for heating systems in buildings, in order to achieve the purposes of the cooperation between the parties.

Therefore, CGS's endeavor to promote its core business of the scientific study and the promotion of adopting ground energy heat as an alternative source of energy for heating is achieved in the following manners:

- i. As a ground energy heat extraction designer, Ever Source Scientific and Technology Development Co., Ltd., a subsidiary of CGS, cooperates with ground source energy heat pump systems agents at all levels to provide them with full sets of ground source energy heat pump systems in support of the development in areas where these agents locate;
- ii. To carry out operation by way of source energy management contracts;
- iii. To cooperate with local governments to promote the development of national new energy usage model county/city centering on the adoption of ground source energy heat as an alternative source of energy for heating, and to achieve high growth with low carbon, thus improving the general quality of living;
- iv. To construct ecological new-energy utilization low-carbon model buildings with ground source energy heat as alternative source of energy for heating at its core, and to provide the best design solution for buildings using reproducible ground source energy heat as an alternative source of energy for heating;
- v. To incorporate the cooling and heating sources of the ground source energy heat pump systems into regional planning in city developments and make such system as part of the city's infrastructure, so that the system acts as a source of energy for cooling and heating for future buildings to secure a low-carbon economy.

INFORMATION OF HYY

HYY is a subsidiary of the Company, of which 94.6% of its equity interests is owned by the Company. HYY is established as a Sino-foreign joint venture company under the laws of People's Republic of China, whose core business is the production and sales of shallow ground energy extraction system and extraction system designer.

INFORMATION OF WAFANGDIAN CITY

Wafandian City is located in Liaoning Province, the People's Republic of China. It has a population of about 1.3 million covering an area of around 3,793.53 square kilometers.

The Board believes that the entering into the two cooperation agreements signifies a significant milestone of the Company's development of its shallow ground source energy business in Liaoning Province.

The cooperation agreements give the Company a golden opportunity to combine its proprietary advanced technology in shallow ground source energy with the city planning in Wafangdian City so that its Main District can be built from the ground up in a way which is ready to be installed with HYY ground source energy heat pump systems as alternative source of energy for the heating/cooling systems.

Also, the Board considers that the Company's performance of site formation and incorporation of the cooling and heating sources systems of ground source energy heat pump systems into city's infrastructure developments can greatly enhance the coverage of ground source energy as alternative source of energy for the heating systems, and the return from such new reproducible ground source energy promotion method can significantly broaden the revenue base of the Company.

The Board believes that, with an area of 3,793.53 square kilometers and a population of about 1.3 million in the centre of coastal economic area of Liaoning, Wafangdian City has immense potential to be constructed as an ecological low-carbon model city in the PRC, and which will also serve as a good demonstration of the Company's expertise and experience in utilizing ground source energy and will be beneficial to the Company's development of its business in other cities of the PRC.

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

Hong Kong, 13 May 2010

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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