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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)

DISCLOSEABLE TRANSACTION DISPOSAL OF SUBSIDIARY

The Board announces that on 27 August 2010, the Vendor, a wholly owned subsidiary of the Company and the Purchaser entered into the Agreement, pursuant to which the Vendor has agreed to sell and the Purchaser has agreed to acquire the entire issued share capital of IIN Network and the Debt for an aggregate consideration of HK\$30,000,000.

As the applicable percentage ratio for the Disposal under the GEM Listing Rules is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company. Accordingly, the entering into of the Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements.

THE AGREEMENT

Date

27 August 2010

Parties

- (1) Vendor
- (2) Purchaser
- (3) IIN Network

The Purchaser is an individual. To the best knowledge, information and belief of the Directors and having made all reasonable enquiry, the Purchaser is a third party independent of the Company and its connected persons.

Assets to be disposed

Pursuant to the Agreement, the Vendor conditionally agreed to (i) sell to the Purchaser; and (ii) procure the Company to sell to the Purchaser and the Purchaser conditionally agreed to acquire the Sale Shares and the Debt. IIN Network will cease to be a subsidiary of the Group after Completion.

Consideration

The Consideration for the Disposal is HK\$30,000,000. The Consideration shall be settled in cash in the following manner:–

- (a) as to HK\$16,500,000 to be paid to the Vendor as deposit and part payment of the Consideration within five Business Days after the date of the Agreement; and
- (b) as to HK\$13,500,000 to be paid to the Vendor upon Completion.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser and having considered the factors of i) the aggregate losses incurred by IIN Network Group during the six months period ended 31 March 2010 and twelve months ended 30 September 2009; ii) the focus of the Company on its resources and future investment in its shallow ground energy utilisation business to generate better returns to the Shareholders after Completion; and iii) the operation conditions of the target company's business. The Directors consider that the Consideration and the terms of the Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

Conditions of the Agreement

Completion is subject to the following conditions:

- (a) the Agreement and transactions contemplated therein having been approved by the Shareholders in a general meeting of the Company (if required under the GEM Listing Rules);
- (b) there being no material breach of representations and warranties made or given by the Vendor under the Agreement; and
- (c) there being no material breach of representations and warranties made or given by the Purchaser under the Agreement.

If the abovementioned condition (c) has not been fulfilled (except if the sole reason for not fulfilling the abovementioned condition (c) is due to the deliberate breach of the Agreement by the Vendor) or waived by the Vendor (as the case may be) on or before the Long Stop Date, the Agreement shall be terminated, whereupon the Vendor shall forfeit the Deposit and interest accrued therefrom. If the abovementioned conditions (c) has been fulfilled or waived by the Vendor (as the case may be), but the abovementioned conditions (a) and (b) have not been fulfilled or waived by the Purchaser (as the case may be) on or before the Long Stop Date, the Agreement shall be terminated, whereupon the Vendor shall within five Business Days after the termination of the Agreement refund the Deposit, without interest, to the Purchaser.

Financial Cut-off Date

It was agreed between the parties to the Agreement that the financial cut-off date of the Disposal was 27 August 2010, being the date of the Agreement. With effect from 28 August 2010, all economic and legal liabilities and benefits and interest of IIN Network shall be borne by the Purchaser.

Completion

Completion will take place within three Business Days after the conditions mentioned above have been fulfilled or waived (as the case may be), or such other date as may be agreed in writing by the parties to the Agreement. In the event that all the abovementioned conditions of the Agreement have been satisfied or waived (as the case may be) on or before the Long Stop Date, and Completion does not take place as a result of the default of the Purchaser to complete the Agreement (except if the sole reason for the default of the Purchaser is due to the deliberate breach of the Agreement by the Vendor), the Vendor shall be entitled to forfeit the Deposit and the interest accrued thereon. In the event that all the abovementioned conditions of the Agreement have been satisfied or waived (as the case may be) on or before the Long Stop Date, and Completion does not take place as a result of the default of the Vendor to complete the Agreement, the Vendor shall within five Business Days after the termination of the Agreement refund the Deposit, without interest, to the Purchaser.

Arrangements of Various Liabilities of IIN Network

The parties to the Agreement have also agreed on certain arrangements in respect of various liabilities of IIN Network.

- (a) In the event that certain amount of debt owed by IIN Network to third parties (which in aggregate amounts to HK\$1,066,933 as at the date of the Agreement) become due and payable and the relevant legal proceeding has been taken against IIN Network, the Vendor shall assume the responsibility of repayment of such debt. The Vendor shall, within 15 Business Days after receipt of the relevant legal documents and other documents reasonably requested by the Vendor, repay the debt on behalf of IIN Network and indemnify IIN Network against all reasonable costs and expenses incurred by IIN Network as a result of the legal proceedings.

- (b) In the event that the aggregate amount of profit tax due and payable by IIN Network for the tax period 2000 to 2009 shall exceed HK\$3,345,000, being the aggregate amount of the tax reserve certificate purchased by IIN Network as a condition for the profit tax for the tax period 2000 to 2009 in dispute be heldover (“**TRC Purchased**”), pursuant to the final determination of the profit tax for the tax period 2000 to 2009 issued by the Inland Revenue Department, the Vendor shall pay the amount of profit tax exceeding HK\$3,345,000 within 15 Business Days after receipt of the relevant tax demand notes and other documents reasonably requested by the Vendor.
- (c) In the event that the aggregate amount of profit tax due and payable by IIN Network for the tax period 2000 to 2009 shall be less than HK\$3,345,000 pursuant to the final determination of the profit tax for the tax period 2000 to 2009 issued by the Inland Revenue Department, the Purchaser shall and shall procure IIN Network and IIN Network shall, within five Business Days after receipt of the repayment of any amount of the TRC Purchased from the Inland Revenue Department, refund such amount to the Vendor.

INFORMATION ON IIN NETWORK

IIN Network is a subsidiary of the Company incorporated in Hong Kong on 19 July 1999 and is an investment holding company of the IIN Network Group, which has a wholly-owned subsidiary named 深圳市利賽實業發展有限公司 (Shenzhen Lisai Industrial Development Co., Ltd.*) principally engaged in the business of environmental protection.

A summary of the unaudited financial information of IIN Network Group for the six months period ended 31st March 2010 and 12 months ended 30 September 2009 prepared in accordance with the general accepted accounting principles in Hong Kong is as follows:

	Six month ended 31 March 2010 <i>HK\$'000</i> unaudited	Year ended 30 September 2009 <i>HK\$'000</i> unaudited
Turnover	18,505	28,608
Net Profit/(loss) (before taxation and extraordinary items)	(27,108)	(7,393)
Net Profit/(loss) (after taxation and extraordinary items)	(28,029)	(7,393)
Total Assets	40,099	64,879
Total Liabilities	79,865	76,609
Net Assets/(Liabilities)	(39,766)	(11,730)
Equity attributable to equity holder of IIN Network	(39,766)	(11,730)

FINANCIAL EFFECT OF THE DISPOSAL

It is estimated that as a result of the Disposal, the Group will record a gain of approximately HK\$12.4 million with reference to the unaudited consolidated management account of IIN Network Group as at 30 June 2010.

REASONS FOR THE DISPOSAL

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. In order to focus on the development of shallow ground energy utilisation business, the Directors consider that the Disposal provides an opportunity for the Company to streamline the business of the Group and is in line with the business strategy of the Company. The Directors also believe that the Disposal would enable the Group to enhance its working capital position and to further improve its liquidity. The Directors consider that the terms and conditions of the Agreement are fair and reasonable, and the Disposal is in the best interest of the Company and its Shareholders as a whole. Upon Completion, IIN Network will cease to be a subsidiary of the Company.

USE OF PROCEEDS

It is the intention of the Group that the proceeds from the Disposal will be used entirely for general working capital.

LISTING RULES IMPLICATIONS

The Disposal constitutes 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:

“Agreement”	the conditional sale and purchase agreement dated 27 August 2010 entered into among, the Vendor, the Purchaser and IIN Network for the sale and purchase of the Sale Shares and the Debt
“Business Day”	any day (other than Saturday, Sunday, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general banking business

“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
“Completion”	Completion of the Agreement
“Consideration”	the total consideration of the Disposal is an amount of HK\$30,000,000 as agreed by the Vendor and the Purchaser under the Agreement
“Deposit”	the HK\$16,500,000 to be paid to the Vendor as deposit and part payment of the Consideration within five Business Days after the date of the Agreement
“Debt”	all obligations, liabilities and debts owing or incurred by IIN Network Group to the Vendor as at the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
“Directors”	directors of the Company
“Disposal”	the disposal of the Sale Shares and the Debt to the Purchaser pursuant to the Agreement
“GEM”	the 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IIN Network”	IIN Network Technology Limited, a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company
“IIN Network Group”	IIN Network and its subsidiaries

“Long Stop Date”	15 December 2010 or such other date as the parties to the Agreement may agree in writing
“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Taiwan and Macau Special Administrative Region
“Sale Shares”	400,000,000 shares in IIN Network, being the entire issued share capital of IIN Network which are proposed to be sold to the Purchaser pursuant to the Agreement
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	II Networks International Limited, a wholly-owned subsidiary of the Company
“%”	percent

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names in Chinese which are marked with “” is for identification purpose only.*

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

Hong Kong, 27 August 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 of the Company 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 the information contained in this announcement 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 announcement misleading.

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