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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)

#### CONNECTED TRANSACTION REGARDING SUBSCRIPTION

##### SUMMARY

The Subscriber and the Company have entered into the Subscription Agreement for the subscription of the Subscription Shares in the Company on 1 December 2010. Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe and the Company has agreed to issue and allot 234,704,000 Subscription Shares at a price of HK\$0.3184 per Subscription Share.

The Subscriber is an executive director of the Company and a substantial shareholder of the Company holding 373,615,000 Shares as at the date of this announcement, representing approximately 20.42% of the existing issued share capital of the Company. In the circumstances, the Subscriber is a connected person of the Company and the proposed issue of Subscription Shares to the Subscriber constitutes a connected transaction for the Company under the GEM Listing Rules and is conditional upon, inter alia, approval by the independent Shareholders, voting by way of poll, at an extraordinary general meeting of the Company.

A circular of the Company containing, amongst other, details of the Subscription Agreement, a letter from the independent financial adviser, a letter from the independent board committee, together with a notice convening an extraordinary general meeting is expected to be dispatched to the Shareholders on or before 22 December 2010.

Shareholders should note that completion of the Subscription Agreement is conditional. **Shareholders and the investing public should exercise caution when dealing in the Shares.**

## **SUBSCRIPTION AGREEMENT**

### **Date**

1 December 2010

### **Parties**

The Company and the Subscriber

### **Terms**

Pursuant to the Subscription Agreement, the Subscriber has agreed to subscribe and the Company has agreed to issue and allot 234,704,000 Subscription Shares credited as fully paid at a price of HK\$0.3184 per Subscription Share.

### **The Consideration**

The total consideration for the Subscription Shares is a sum of HK\$74,729,753.60 to be satisfied on completion by cash.

### **Subscriber**

The Subscriber is an executive director of the Company. He is also a substantial shareholder of the Company holding 373,615,000 Shares as at the date of this announcement, representing approximately 20.42% of the existing issued share capital of the Company. After the Subscription, the Subscriber will hold 608,319,000 Shares, representing approximately 29.47% of the issued share capital of the Company as enlarged by the Subscription Shares.

### **The Subscription Shares**

All Subscription Shares will be credited as fully paid and rank pari passu in all respects with the existing issued Shares, and will be free from all encumbrances whatsoever.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

The Subscription Shares represent approximately 12.83% of the existing issued share capital of the Company and approximately 11.37% of the issued share capital of the Company as enlarged by the Subscription Shares.

The issue price of HK\$0.3184 per Subscription Share was determined after arm's length negotiations between the Subscriber and the Company, after taking into account of (i) the large size of the Subscription and the substantial amount of money involved; (ii) the lock-up undertaking; (iii) the prevailing market price and the recent trading volume of the Shares; (iv) the high volatility of the capital market recently; and (v) the requirement of funds for further investment in Wafangdian projects.

The issue price of HK\$0.3184 per Subscription Share represents a discount of approximately 16.2% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on 1 December 2010, being the date on which the terms of the Subscription were fixed and a discount of approximately 18.15% to the average closing price of HK\$0.389 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 1 December 2010.

### **Subscriber's Undertaking**

Pursuant to the Subscription Agreement, the Subscriber has undertaken to and covenanted with the Company that during the Lock-up Period, he shall not and shall procure that none of his nominees or trustees holding in trust for him the Subscription Shares shall sell, transfer or otherwise dispose of (or enter into an agreement to do any of the foregoing) any of the Subscription Shares.

### **Conditions**

Completion of the Subscription Agreement is conditional upon:

1. the passing by the independent shareholders of the Company in general meeting of an ordinary resolution approving the Subscription Agreement, the issue of the Subscription Shares, the transactions contemplated in or incidental to the Subscription Agreement and the implementation thereof in accordance with the GEM Listing Rules; and
2. the Stock Exchange having granted the listing of and permission to deal in the Subscription Shares.

### **Completion**

Completion of the Subscription Agreement is expected to take place on the seventh Business Day after the conditions are fulfilled (or such other date as the Subscriber and the Company may agree).

### **Reasons**

The Board considers that the Subscription would enable the Company to enlarge the Company's capital base and secure funds for future investment in Wafangdian projects and for future business development. The Board believes that the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## CHANGES TO THE SHAREHOLDING AS A RESULT OF THE SUBSCRIPTION

The effect of the Subscription on the shareholding structure of the Company is as follows:

Name of Shareholders	Immediately before completion of the Subscription		Immediately after completion of the Subscription	
	Number of Shares	Approximate percentage of the interests	Number of Shares	Approximate percentage of the interests
The Subscriber	373,615,000	20.42%	608,319,000	29.47%
Spouse of the Subscriber	702,000	0.04%	702,000	0.03%
Other non-public Shareholders	47,829,750	2.61%	47,829,750	2.32%
Other Public Shareholders	<u>1,407,706,367</u>	<u>76.93%</u>	<u>1,407,706,367</u>	<u>68.18%</u>
Total:	<u><u>1,829,853,117</u></u>	<u><u>100%</u></u>	<u><u>2,064,557,117</u></u>	<u><u>100%</u></u>

## USE OF PROCEEDS

The net proceeds of the Subscription will be approximately HK\$74.2 million after deducting expenses of the Subscription. The Company intends to use the net proceeds from the Subscription principally as funds for future investment in Wafangdian project and future business development and for the general corporate and working capital requirements of the Group.

The net proceeds raised per new Subscription Share upon the completion of the Subscription will be approximately HK\$0.316 per new Share.

## FUND RAISING ACTIVITY OF THE COMPANY

During the past 12 months prior to the date of this announcement, the Company has not conducted any fund raising activities.

## GENERAL

The principal activities of the Group are the promotion of new energy with a focus on shallow ground energy as alternative energy for heating and cooling.

The Subscriber is an executive director of the Company. He is also a substantial shareholder of the Company holding 373,615,000 Shares as at the date of this announcement, representing approximately 20.42% of the existing issued share capital of the Company. In the circumstances, the Subscriber is a connected person of the Company and the proposed Subscription constitutes a connected transaction for the Company under the GEM Listing Rules and is conditional upon, inter alia, approval by the independent Shareholders, voting by way of poll, at an extraordinary general meeting of the Company.

The Subscriber and his associates will abstain from voting on the ordinary resolution approving the Subscription Agreement at the extraordinary general meeting of the Company.

A circular of the Company containing, amongst others, details of the Subscription Agreement, a letter from the independent financial adviser, a letter from the independent board committee, together with a notice convening the extraordinary general meeting of the Company will be despatched to the Shareholders on or before 22 December 2010.

Shareholders should note that completion of the Subscription Agreement is conditional. **Shareholders and the investing public should exercise caution when dealing in the Shares.**

## DEFINITIONS

“Board”	the board of directors of the Company
“Business Day”	means any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks are open for business in Hong Kong throughout its normal opening hours provided that each business day shall finish (and then the next business day commence) at 5:00 p.m.
“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 Date”	the date on which completion of the Subscription take place
“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
“Lock-up Period”	the period from the Completion Date to the first anniversary of the Completion Date (both days inclusive)
“Shareholders”	shareholders of the Company

“Shares”	ordinary shares of US\$0.04 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Xu Shengheng, an executive director of the Company and a substantial shareholder of the Company as at the date of this announcement
“Subscription”	the subscription of the Subscription Shares at HK\$0.3184 per Subscription Share pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional agreement entered into between the Subscriber and the Company on 1 December 2010 in respect of the Subscription
“Subscription Shares”	234,704,000 new Shares to be issued by the Company to the Subscriber at a price of HK\$0.3184 per Subscription Share

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

Hong Kong, 1 December 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 (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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