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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)

PLACING NEW SHARES AND RESUMPTION OF TRADING

Placing Agent

Pacific Foundation Securities Limited

PLACING OF NEW SHARES

The Company and the Placing Agent entered into the Placing Agreement on 25 May 2009, whereby the Company has conditionally agreed to place, through the Placing Agent on a best efforts basis, a maximum of 1,100,000,000 Placing Shares to independent investors at a price of HK\$0.078 per Placing Share.

The 1,100,000,000 Placing Shares represent (i) approximately 19.46% of the existing issued share capital of the Company of 5,653,112,470 Shares; and (ii) approximately 16.29% of the Company's issued share capital as enlarged by completion of the Placing.

The maximum net proceeds from the Placing of approximately HK\$85.15 million are intended to be used for the general working capital of the Group.

Placing is conditional upon the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares.

RESUMPTION OF TRADING

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 25 May 2009 pending release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 26 May 2009.

THE PLACING AGREEMENT

Date

25 May 2009

Placing agent:

Pacific Foundation Securities Limited, being the Placing Agent, has conditionally agreed to place a maximum of 1,100,000,000 Placing Shares on a best efforts basis and will receive a placing commission of HK\$500,000. The placing commission was determined by reference to the range of market norms for commissions for this type of transaction. The Directors (including the independent non-executive Directors) are of the view that the placing commission is fair and reasonable.

The Placing Agent and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Placees

The Placing Shares will be placed on a best efforts basis to not less than six Placees who, and whose ultimate beneficial owners, will not be connected persons of the Company and will not be connected with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules). None of the Placees will become a substantial shareholder (as defined in the GEM Listing Rules) immediately after the Placing.

Number of Placing Shares

Up to 1,100,000,000 Placing Shares are to be placed by the Placing Agent on a best effort basis. Assuming the Placing Shares are fully placed, the 1,100,000,000 Placing Shares represent: (i) approximately 19.46% of the existing issued share capital of the Company of 5,653,112,470 Shares and approximately 16.29% of the issued capital of the Company as enlarged by the Placing.

Placing Price

The Placing Price is HK\$0.078 per Placing Share, which represents:

- (i) a discount of approximately 12.36% to the closing price of HK\$0.089 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 4.88% to the average closing price of HK\$0.082 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days including the Last Trading Day; and

- (iii) a premium of approximately 3.86% to the average closing price of HK\$0.0751 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days including the Last Trading Day.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent and has been determined with reference to the prevailing market price of the Shares. The Directors (including the independent non-executive Directors) consider that the terms of the Placing, including the Placing Price and the placing commission, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The net proceeds of the Placing is required to be paid to the Company at completion of Placing.

Ranking of the Placing Shares

The Placing Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the relevant Placing Shares.

General Mandate

The Placing Shares will be issued under the General Mandate to allot, issue and deal with Shares granted to the Directors by a resolution of the Shareholders passed at the Company's extraordinary general meeting held on 25 March 2009 subject to the limit up to 20% of the then issued ordinary Shares with a par value of US\$0.01 each in the capital of the Company. Under the General Mandate, the Company is authorized to issue 1,130,622,494 Shares. Up to the date of this announcement, no new Shares have been issued under the General Mandate. The Placing and the issue of new Placing Shares are not subject to Shareholders' approval.

Conditions of the Placing

The Placing is conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Placing Shares.

If the foregoing condition is not fulfilled on or prior to 25 June 2009 (or such other date as may be agreed between the Company and the Placing Agent) or that the Placing Agreement is terminated by the Placing Agent pursuant to the terms of the Placing Agreement, the Placing Agreement shall terminate and none of the parties shall have any claim against the other for any costs or losses (save for any prior breaches of the Placing Agreement).

Completion

Completion of the Placing is to take place on the third business day after the fulfillment of the conditions set out in the Placing Agreement or such other date as may be agreed between the Company and the Placing Agent.

Application for listing

Application will be made by the Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

EFFECT OF THE PLACING ON SHAREHOLDING

The existing and enlarged shareholding structure of the Company as at the date of this announcement and immediately after completion of the Placing (assuming there are no other changes in the issued share capital of the Company) are set out below:

Shareholders	As at the date of this announcement		Immediately after completion of the Placing	
	Number of Shares	%	Number of Shares	%
Ms. Chan Wai Kay Katherine (<i>Note 1</i>)	40,296,000	0.71	40,296,000	0.60
Mr. Wu Shu Min (<i>Note 2</i>)	146,023,000	2.58	146,023,000	2.16
Mr. Xu Shengheng (<i>Note 3</i>)	1,022,568,000	18.09	1,022,568,000	15.14
Financial International Holdings Ltd (<i>Note 4</i>)	509,468,000	9.01	509,468,000	7.55
Ms. Cheung Kwan (<i>Note 4</i>)	183,160,000	3.24	183,160,000	2.71
Public Shareholders				
The Placees	–	–	1,100,000,000	16.29
Others	<u>3,751,597,470</u>	<u>66.37</u>	<u>3,751,597,470</u>	<u>55.55</u>
Total	<u>5,653,112,470</u>	<u>100.00</u>	<u>6,753,112,470</u>	<u>100.00</u>

Notes:

1. Mr. Chow Ming Joe Raymond (“Mr. Chow”), spouse of Ms. Chan Wai Kay, Katherine, chairman of the Company, (“Ms. Chan”), holds 40,296,000 shares of the Company (“Shares”). Under the SFO, Ms. Chan is deemed to be interested in 40,296,000 Shares in which Mr. Chow is interested.
2. Mr. Wu Shu Min, an executive director of the Company, is interested in 146,023,000 Shares.
3. Mr. Xu Shengheng, an executive director of the Company (“Mr. Xu”) holds 1,019,760,000 Shares. Ms. Luk Hoi Man (“Ms. Luk”), is the spouse of Mr. Xu, holds 2,808,000 Shares. Therefore, under the Securities and Futures Ordinance, Mr. Xu is deemed to be interested in 1,022,568,000 Shares including 2,808,000 Shares in which Ms. Luk is interested.
4. Financial International Holdings Ltd is wholly-owned by Ms. Cheung Kwan. Therefore, Ms. Cheung Kwan is deemed to be interested in 692,628,000 shares of the Company, representing approximately 12.25% of the issued share capital of the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not have any fund raising activities on any issue of equity securities in the past twelve months prior to the Last Trading Day.

REASON FOR THE PLACING AND USE OF PROCEEDS

The Board considers that the Placing represents a good opportunity to broaden the shareholders base and to raise capital for the Company for its future business developments. The Directors consider that the Placing is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The maximum gross proceeds from the Placing are approximately HK\$85.8 million. The maximum net proceeds from the Placing (after deducting the placing commission and other related expenses payable by the Company) are approximately HK\$85.15 million. All of such net proceeds will be used as general working capital of the Group. The net proceeds raised per Placing Share is approximately HK\$0.077.

RESUMPTION OF TRADING

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 25 May 2009 pending release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 26 May 2009.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Board”	the board of Directors
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on GEM
“Director(s)”	director(s) of the Company
“Condition”	condition of the Placing
“Connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the rules governing the listing of securities on GEM

“General Mandate”	the general mandate granted to the Directors by the Shareholders at the extraordinary general meeting of the Company held on 25 March 2009 to allot and issue new Shares
“Group”	the Company and its subsidiaries
“Last Trading Day”	22 May 2009, being the last trading day of the Shares immediately prior to suspension of trading in the Shares on 25 May 2009, being the date of the Placing Agreement
“Placees”	any individuals, corporate, institutional investors or other investors procured by or on behalf of the Placing Agent to purchase any of the Placing Shares pursuant to the Placing Agent’s obligations under the Placing Agreement
“Placing”	placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agent”	Pacific Foundation Securities Limited
“Placing Agreement”	the placing agreement dated 25 May 2009 made between the Company and the Placing Agent
“Placing Price”	HK\$0.078 per Placing Share
“Placing Shares”	up to an aggregate of 1,100,000,000 new ordinary Shares to be allotted and issued under the Placing
“Shares”	shares of US\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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.

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

Hong Kong, 25 May 2009

This announcement, for which the directors of China Ground Source Energy Limited collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to China Ground Source Energy Limited. The directors of China Ground Source Energy Limited, 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 Announcement” page on the GEM website for at least 7 days from the date of publication and on the website of China Ground Source Energy Limited at www.iini.com.