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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)

**MAJOR DISPOSAL
AND
RESUMPTION OF TRADING**

The Board announces that on 30 June 2009, 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 FFL and the Debt for an aggregate consideration of HK\$2,000,000.

As the applicable percentage ratio for the Disposal under the GEM Listing Rules is more than 25% but less than 75%, the Disposal constitutes a major disposal for the Company under Chapter 19 of the GEM Listing Rules. Accordingly, the entering into of the Agreement and the transactions contemplated thereunder are subject to the approval of the Shareholders at the EGM.

A circular of the Company containing, among other things, details of the Agreement together with a notice of EGM will be despatched to the Shareholders in accordance with the requirements of the GEM Listing Rules as soon as possible.

Trading in the Shares on the GEM was suspended from 9:30 a.m. on 2 July 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 8 July 2009.

THE AGREEMENT

Date

30 June 2009

Parties

- (1) Vendor: II Networks International Limited, a wholly owned subsidiary of the Company.
- (2) Purchaser: Zhang Jie.

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 sell to the Purchaser and the Purchaser conditionally agreed to acquire the Sale Share and the Debt from the Vendor. FFL will cease to be a subsidiary of the Group after Completion.

Consideration

The Consideration for the disposal of the Sale Share and the Debt by the Company through the Vendor is HK\$2,000,000. Since the Company anticipated that, save as the Debt, FFL will not incur further liabilities to the Vendor before Completion, there will not be any adjustment to the Consideration. The Consideration shall be settled in cash in the following manner:–

- (a) as to HK\$500,000 to be paid to the Vendor as deposit and part payment of the Consideration within 5 days after the date of the Agreement; and
- (b) as to HK\$1,500,000 to be paid to the Vendor upon Completion.

The Consideration was arrived at after arm's length negotiations between the Vendor and the Purchaser taking into account the Debt of approximately HK\$9,862,000 and the unaudited equity attributable to the equity holders of FFL of approximately HK\$(8,648,000) as at 30 April 2009. The Directors consider 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 of the Agreement is conditional upon the Agreement and the transactions contemplated under the Agreement having been approved by the Shareholders in a general meeting. If the condition mentioned above has not been satisfied at or before 5:00 p.m. on 31 August 2009 or such other date as the Purchaser and the Vendor may agree, the Agreement shall cease and determine, whereupon the Vendor shall forthwith refund the deposit, without interest, to the Purchaser and none of the parties thereto shall have any other obligations and liabilities thereunder nor shall take any action to claim for damages or to enforce specific performance or any other rights and remedies.

Completion

Completion shall take place within 7 Business Days after the condition mentioned above has been fulfilled. Upon Completion, FFL will cease to be a subsidiary of the Group and its results will cease to be consolidated into the consolidated account of the Group.

Warranties and future covenant

The Vendor has provided various warranties in respect of the Sale Share and the Debt and the conditions of the Vendor to the Purchaser. The liability of the Vendor in respect of breach of such warranties shall not exceed HK\$1,000,000.

INFORMATION ON THE GROUP

The Vendor is a wholly-owned subsidiary of the Company. The Group is principally engaged in environmental protection and new energy businesses.

INFORMATION OF FFL AND ITS SUBSIDIARY

FFL is an investment holding company established in the British Virgin Islands on 2 August 2002 and is an indirect wholly-owned subsidiary of the Company. The JV is a joint venture established in the PRC on 8 February 2001. As at the date of this announcement, the JV is owned as to 51% by FFL and 49% by 吳江市信誠光電線纜廠 (Xincheng Optical Cables Factory). The JV is principally engaged in manufacturing and sale of communication cables and optical cables. Other than its investment in the JV, FFL has no other investments or business activities.

A summary of the audited financial information of FFL Group for the year ended 30 September 2008 and 30 September 2007 and the unaudited financial information of FFL Group for the seven months ended 30 April 2009 prepared in accordance with the general accepted accounting principles in Hong Kong is as follows:

	For the seven months ended 30 April 2009 HK\$'000	For the year ended 30 September 2008 HK\$'000	For the year ended 30 September 2007 HK\$'000
Turnover	45,645	95,854	106,875
Net Profit/(loss) (before taxation and extraordinary items)	(2,129)	(5,063)	2,527
Net Profit/(loss) (after taxation and extraordinary items)	(2,129)	(5,063)	1,373
	As at 30 April 2009 HK\$'000	As at 30 September 2008 HK\$'000	As at 30 September 2007 HK\$'000
Total Assets	71,480	72,486	73,689
Total Liabilities	67,929	66,778	62,591
Net Assets before minority interest	3,551	5,708	11,098
Minority interests	12,199	13,255	15,897
	<i>(Note 1)</i>		
Equity attributable to equity holder of FFL	(8,648)	(7,547)	(4,799)
	<i>(Note 2)</i>		

Note:

1. This minority interests represent interest of the minority shareholder, Xincheng Optical Cables Factory, in the net assets of the JV and consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the business combination.
2. Equity attributable to equity holder of FFL as at 30 April 2009 represents accumulated losses incurred by the FFL Group, net of exchange reserve and revaluation reserve.

The amount of obligations, liabilities and debts owed or incurred by FFL to the Vendor as at 30 April 2009 was approximately HK\$9,862,000.

FINANCIAL EFFECT OF THE DISPOSAL

It is estimated that as a result of the Disposal, the Group will record a gain of approximately HK\$786,000 with reference to the unaudited consolidated management account of FFL Group as at 30 April 2009.

REASONS FOR THE DISPOSAL

As disclosed in the annual report of the Company for the year ended 30 September 2008, the Company intends to focus on environmental protection and shallow ground energy utilization business and to gradually withdraw from the telecommunication network solutions business. As the business in the transmission sector is deteriorating due to the intensifying competition in the market, the Directors consider that the Disposal provides an opportunity for the Company to dispose of a weakening business and to streamline the businesses of the Group and is in line with the Company's business strategy. The Directors believe that the terms of the Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

USE OF PROCEEDS

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

GENERAL

As the applicable percentage ratio for the Disposal under the GEM Listing Rules is more than 25% but less than 75%, the Disposal constitutes a major disposal for the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to approval by Shareholders at the EGM. A circular of the Company containing, among other things, details of the Agreement together with a notice of EGM will be despatched to the Shareholders in accordance with the requirements of the GEM Listing Rules as soon as possible.

Trading in the Shares was suspended from 9:30 a.m. on 2 July 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 8 July 2009.

DEFINITIONS

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

“Agreement”	the conditional sale and purchase agreement dated 30 June 2009 entered into between the Vendor and the Purchaser for the sale and purchase of the Sale Share and the Debt
“Board”	the board of Directors
“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
“Completion Date”	the date on which Completion takes place
“Consideration”	the total consideration of the Disposal in an amount of HK\$2,000,000 as agreed by the Vendor and the Purchaser under the Agreement
“Debt”	all obligations, liabilities and debts owing or incurred by FFL to the Vendor as at the Completion Date whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Share and the Debt by the Vendor pursuant to the Agreement
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of approving, inter alia, the Disposal
“FFL”	Future Frontier Limited, an indirectly wholly-owned subsidiary of the Company
“FFL Group”	FFL and its subsidiaries
“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
“JV”	Wujiang Shengxin Optoelectronics Technology Co., Ltd., as to 51% of its equity interests is owned by FFL

“PRC”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Taiwan and Macau Special Administrative Region
“Purchaser”	Zhang Jie
“Sale Share”	one share in FFL, which represents the entire issued share capital of FFL held by the Vendor and to be sold to the Purchaser pursuant to the Agreement
“Shares”	shares of US\$0.01 each in the capital of the Company
“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

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

Hong Kong, 7 July 2009

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 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.