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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)

**UNCERTAINTIES REGARDING
SHAREHOLDING IN THE COMPANY'S SUBSIDIARY
AND
RELATIONSHIP BETWEEN THE GROUP AND ANOTHER COMPANY**

This announcement is made pursuant to Rule 17.10 of the GEM Listing Rules.

The Board wishes to inform the Shareholders and potential investors of the Company that in the process of the audit of the consolidated financial statements of the Group for the year ended 30 September 2009, the following matters have come to the notice of the Company's auditors.

1. uncertainty as to the Group's equity interest in Shengxin for the period between December 2005 and September 2007; and
2. uncertainty as to the relationship between the Group and a company called 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environmental Technology Development Company Limited).

Given the significance of the above matters, Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

This announcement is made pursuant to Rule 17.10 of the GEM Listing Rules.

THE COMPANY'S SHAREHOLDING IN SHENGXIN

The Board of the Company wishes to inform the Shareholders and potential investors of the Company that in the process of the audit of the consolidated financial statements of the Group for the year ended 30 September 2009, the following matters have come to the notice of the Company's auditors:

1. uncertainty as to Group's equity interest in Shengxin for the period between December 2005 and September 2007; and
2. uncertainty as to the relationship between the Group and a company called 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environmental Technology Development Company Limited).

During the course of audit of the consolidated financial statements of the Group for the year ended 30 September 2009, the Company's auditor has discovered documents which show an inconsistency in the Group's equity interest in Shengxin. Certain documents appear to show that the Group's equity interest in Shengxin might have been diluted from 51% to 32.745% as a result of a proposed capital injection of RMB 8 million contributed by 吳江市信誠光電線纜廠 (Wujiang City Xincheng Optoelectronics Cable Factory) (another equity owner of Shengxin which should be holding 49% equity interest in Shengxin), while other documents suggest that the Group still holds an equity interest of 51% in Shengxin.

In the financial statements of the Group covering the period from December 2005 to September 2007, Shengxin was regarded as a subsidiary within the Group in which the Group held 51% equity interest. Shengxin was disposed of by the Group on 8 September 2009.

Shengxin was a major subsidiary of the Company, for the year ended 30 September 2007 and 2008, the turnover of Shengxin accounted for approximately 91% and 41% of the Group's turnover respectively.

As a result of the abovementioned uncertainty, the Company has been advised by its auditors that any adjustment that might have been found to be necessary in respect of the above could have a significant effect on the consolidated financial statements which have previously been issued by the Group for the years ended 2006, 2007 and 2008 and the consolidated financial statements of the Group to be issued for the year ended 30 September 2009.

THE COMPANY'S RELATIONSHIP WITH HUNAN HENGXING

In the process of the audit of the consolidated financial statements of the Group for the year ended 30 September 2009, a document was discovered by the Company's auditors which shows that Shenzhen Lisai, a wholly-owned subsidiary of the Company, may have a relationship with a company called 湖南衡興環保科技開發有限公司 (Hunan Hengxing Environmental Technology Development Company Limited), a company established under the laws of the PRC.

However, since the acquisition of Shenzhen Lisai by the Group in 2007, the management of the Group has classified Hunan Hengxing as a non-related party in accordance with Hong Kong accounting standards.

The Company has been advised by its auditors that the existing of aforesaid uncertainty surrounding the relationship between the Group and Hunan Hengxing may cast significant doubt on the appropriateness of accounting treatment of the transactions between the Group and Hunan Hengxing and the related disclosures in the Group's consolidated financial statements.

ACTION TAKEN BY THE BOARD

The Board takes a serious view of the above matters and has resolved to appoint an independent auditor to investigate (i) the shareholding of the Company in Shengxin for the period from December 2005 to September 2007; and (ii) the relationship between the Group and Hunan Hengxing. The Company will make further announcement(s) to keep the Shareholders and potential investors of the Company informed of the development of above matters.

Given the significance of the above matters, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this announcement:

“Board”	the board of Directors
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“Director(s)”	director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the rules governing the listing of securities on GEM
“Group”	the Company and its subsidiaries
“Hunan Hengxing”	湖南衡興環保科技開發有限公司 (Hunan Hengxing Environmental Technology Development Company Limited), a company established under the laws of the PRC

“PRC”	the People’s Republic of China
“Share(s)”	Share(s) of the Company
“Shareholder(s)”	holder(s) of Shares
“Shengxin”	吳江勝信光電科技有限公司 (Wujiang Shengxin Optoelectronics Technology Co., Ltd.), a company established under the laws of the PRC
“Shenzhen Lisai”	深圳市利賽實業發展有限公司 (Shenzhen City Li Sai Industrial Development Company Limited), a company established under the laws of the PRC which is a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

Hong Kong, 23 December 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.

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