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CHINA GROUND SOURCE ENERGY LIMITED

中國地能有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

**CANCELLATION OF CONVERTIBLE NOTES
AND
COMMENCEMENT OF LEGAL PROCEEDINGS AGAINST
CHINA STANDARD LIMITED**

The Board wishes to inform the Shareholders and potential investors of the Company that on 31 March 2010, the Company cancelled the Convertible Notes and commenced legal proceedings against China Standard Limited.

Reference is made to the Company's announcement issued on 19 February 2010 (the "Announcement"). Terms defined in the Announcement shall have the same meanings when used herein.

**CANCELLATION OF CONVERTIBLE NOTES AND COMMENCEMENT OF LEGAL
PROCEEDINGS AGAINST CHINA STANDARD LIMITED**

As disclosed in the Announcement, the Independent Investigator concluded in its Investigation Report that the amount of equity interest of Hunan Hengxing attributable to Shenzhen Lisai was material to all the readers/users of the financial statements of Shenzhen Lisai and that the failure to properly record or non-disclosure of such material amount indicated a material weakness in the financial statements of Shenzhen Lisai provided by China Standard Limited in the Company's acquisition of Lidesui and Lisai Gardens.

In view of the findings in the Investigation Report, the Board wishes to inform the Shareholders and potential investors of the Company that after seeking legal advice, on 31 March 2010:

1. the Company cancelled the Convertible Notes, so that the Convertible Notes shall be considered as null and void and have no further legal effect; and
2. the Company commenced legal proceedings to claim all loss and damage suffered by the Company against China Standard Limited for its material non-disclosure of the fact that Shenzhen Lisai owned Hunan Hengxing (which should amount to misrepresentation) when the Company acquired Lidesui and Lisai Gardens.

The Company will make further announcement(s) to keep the Shareholders and potential investors of the Company informed of the development of above matter as and when necessary.

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

Hong Kong, 1 April 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 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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