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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)

ANNOUNCEMENT

This announcement is made pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The board of directors (the “Board”) of China Ground Source Energy Limited (the “Company”) wishes to inform that the Company has received a petition pursuant to Section 168A of The Companies Ordinance, Chapter 32 and a 1st Affidavit of Cheung Kwan that filed by Ms. Cheung Kwan, as Petitioner, to the High Court on 13 June 2012. The petition was made against Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, both of them being executive directors of the Company, Ms. Luk Hoi Man, being the non-executive director of the Company, and the Company. Pursuant to the Petition, Ms. Cheung Kwan made allegations that affairs of the Company were conducted in a manner which are unfairly prejudicial to her interest in the Company. As stated in the Petition, a court hearing is fixed to be held on 27 July 2012.

The allegations made by Ms. Cheung Kwan in the Petition, including but not limited to, the following and she claimed that these Company’s acts have prejudiced her interests in the Company:

- 1) Ms. Cheung Kwan didn’t know why or on what basis the Company executed a share consolidation involving 4 shares of the Company combined into one (the “Share Consolidation”) as announced by the Company’s announcement dated 30 December 2009 and the Company’s circular dated 31 December 2009, but the practical effect of the Share Consolidation is that she right away suffered a gross reduction in value of her shares.
- 2) Dilution of her shareholdings by (i) the subscription of new shares by Mr. Xu Shengheng as announced by the Company’s announcement dated 1 December 2010 and the Company’s circular dated 21 December 2010; and (ii) the subscription of new shares by

China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (“CECEP(HK) Subscription”) as announced by the Company’s announcement dated 12 April 2012 and the Company’s circular dated 5 June 2012.

- 3) Ms. Cheung Kwan is highly skeptical whether the proceeds from the CECEP(HK) Subscription will be put to proper use.

In the Petition, Ms. Cheung Kwan requested the High Court to grant following orders:

- 1) An order to remove Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine and Ms. Luk Hoi Man as the directors of the Company;
- 2) Alternately, an order that the Company shall convene a meeting of members to consider the removal of Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine and Ms. Luk Hoi Man as directors of the Company and to elect replacement directors to replace them;
- 3) An order to Mr. Xu Shengheng or Ms. Chan Wai Kay Katherine or both to purchase the 125,000,000 shares that are held by Ms. Cheung Kwan.

In response to the allegations made by Ms. Cheung Kwan, the Company would like to provide the following factual information:

- 1) The Company has already provided reasons in the Company’s circular dated 31 December 2009 that the Share Consolidation was proposed pursuant to Rule 17.76 of the GEM Listing Rules. The Share Consolidation has been approved by the Shareholders’ meeting held on 1 February 2010 and it has involved all the then issued share capital without creating any dilution effect to any individual Shareholder and all shareholders were treated equally.
- 2) The subscription of new shares by Mr. Xu Shengheng was also approved by the independent shareholders in an extraordinary general meeting held on 11 January 2011 with Mr. Xu Shengheng and his associate abstained from voting.
- 3) Regarding the CECEP(HK) Subscription, the Company has already issued a circular dated 5 June 2012 in which reasons for the subscription and use of proceeds of the subscription were fully disclosed and provided. In fact, the Tranche B Subscription and the specific mandate have been proposed as ordinary resolutions for shareholders’ approval in an extraordinary general meeting to be held on 22 June 2012.

After considering the above, the Board is of the view that the allegations made by Ms. Cheung Kwan in the Petition are completely groundless and factually untrue.

The Company is now seeking legal advice on the Petition including the submission of an affirmation to oppose the Petition.

The Company will make further announcement on the above legal matter when and where appropriate.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

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

Hong Kong, 14 June 2012

As at the date of this announcement, the Board comprises Ms. Chan Wai Kay, Katherine, and Mr. Xu Shengheng as executive Directors, Ms. Luk Hoi Man as non-executive Director, Mr. Jia Wenzeng, Mr. Paul Chow Wan Hoi and Mr. Wu De Sheng as independent non-executive Directors.

This announcement, for which the directors of the Company 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 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.

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of the Company at www.cgsenergy.com.hk