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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)

CLARIFICATION ANNOUNCEMENT

With reference to the enquiry from The Stock Exchange of Hong Kong Ltd. regarding a complaint against the Company on the acquisition (the “Acquisition”) of Beijing Enterprises Ever Source Ltd. (“BEES(BVI)”) made in 2007 that they received recently, the board of directors (the “Board”) of China Ground Source Energy Limited (the “Company”) would like to make certain clarifications in response to the complaint.

The agreement (the “Agreement”) of the Acquisition was entered into with Ever Sincere Investment Limited (“Ever Sincere”) on 21 December 2007, details of which can be referred to the Company’s announcement dated 5 November 2007, 14 January 2008 and 31 March 2008 and the Company’s circular dated 29 February 2008 (the “Circular”).

The CB certificate was issued to Ever Sincere upon completion of the Acquisition, i.e. 31 March 2008 and has always been kept by the Company. Upon expiry of the guaranteed period, the Company received the audited financial statements for the two years ended 31 March 2010 (the “Audited Financial Statements”) of BEES(BVI) on 27 August 2010. According to the profit recorded in the Audited Financial Statements, Ever Sincere was entitled to the CB with an aggregate amount of HK\$146,217,000 (the “Entitled Portion”). On 14 September 2010, Mr. Xu Shengheng (“Mr. Xu”), the sole shareholder of Ever Sincere, converted an amount of HK\$103,350,000 of the Entitled Portion into 86,125,000 shares of the Company. Mr. Xu voluntarily waived the remaining balance of HK\$42,867,000 of the Entitled Portion as he considered that some of the profit was not generated directly from the promotion of ground source energy business. For the shortfall of the guaranteed profit, the Company cancelled the CB of HK\$57,783,000 in accordance with the terms and conditions of the Agreement.

The current Board did not know the reasons behind the issuance of the CB certificate on 31 March 2008 but due to the CB certificate has always been kept by the Company since its issuance, the Entitled Portion provided to Mr. Xu was based on the Audited Financial Statements and the mechanism for issuing the Entitled Portion were in accordance the terms and conditions of the Agreement and the Circular, the Board is of the view that the issuance of the CB certificate upfront does not constitute a change of terms and it has no negative impact to the Company and its shareholders.

The Company would also like to clarify an injunction of 250,000,000 shares held by Mr. Xu.

Based on the information provided by Mr. Xu, the Company hereby advises the details of the legal proceedings between Mr. Xu and Ms. Cheung Kwan (“Ms. Cheung”) and the injunction:

- 1) Mr. Xu has filed a civil claim to the High Court on 6 February 2009 against Ms. Cheung Kwan (“Ms. Cheung”) for an outstanding amount of HK\$20,000,000.
- 2) Ms. Cheung filed a counterclaim against Mr. Xu on 16 November 2011, nearly after three years that Mr. Xu made claims for compensation against her, requiring the transfer to her of 250,000,000 shares of the Company (the “Relevant Shares”) in the name of Mr. Xu, representing approximately 12.1% of the issued share capital of the Company, or to pay her compensation of HK\$125,000,000. Mr. Xu is of the view that the allegations made by Ms. Cheung are groundless and factually untrue.
- 3) At the hearing on 3 January 2012, the High Court granted an Inter Parte Injunction (the “Injunction”) restraining Mr. Xu, inter alia, from selling, disposing, transferring, assigning or dealing with the 250,000,000 ordinary shares of the Company.
- 4) At the hearing on 16 May 2012, the High Court directed that the Injunction order granted on 3 January 2012 does not affect the voting rights of Mr. Xu in the Relevant Shares. At the same time, in order to ensure Ms. Cheung has the ability to bear the potential loss that might be brought to Mr. Xu under the said injunction, the Court directed (i) Ms. Cheung and her company, namely Financial International Holdings Ltd. (“Financial”) should not dispose of all the 125,000,000 shares of the Company that they held, representing approximately 6.05% of the issued share capital of the Company; (ii) if they wish to sell, Mr. Xu has first right of refusal; (iii) if Mr. Xu has given up the first right of refusal and the shares are sold on same or better price, all proceeds from the sale shall be paid into court; (iv) Ms. Cheung should not change the board and shareholders composition of Financial.

As the Injunction does not affect the voting rights of Mr. Xu in the Relevant Shares and the litigation was not instituted against the Company, the Board is of the view that it is a personal matter of Mr. Xu and it would not affect the Company and its operation.

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

Hong Kong, 31 May 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