

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



中國地能產業集團有限公司

CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8128)

CONNECTED TRANSACTION SIGNING OF CONSULTANCY SERVICE AGREEMENT

CONSULTANCY SERVICE AGREEMENT

On 30 September 2013 (after trading hours of the Stock Exchange), Hua Yu and HYY (an indirect subsidiary of the Company) entered into the Consultancy Service Agreement, pursuant to which Hua Yu will provide financial consultancy services to HYY.

GEM LISTING RULES IMPLICATIONS

Hua Yu is a subsidiary of CECEP. As CECEP(HK) is both a substantial Shareholder of the Company and a wholly-owned subsidiary of CECEP, Hua Yu is an associate of CECEP(HK) and is a connected person of the Company under the GEM Listing Rules. Accordingly, the Consultancy Service Agreement and the transactions contemplated thereby constitute a connected transaction of the Company for the purpose of the GEM Listing Rules.

Since the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the Consultancy Fee payable by HYY to Hua Yu are less than 5%, the entering into of the Consultancy Service Agreement constitutes a connected transaction of the Company which is only subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 20 of the GEM Listing Rules.

On 30 September 2013 (after trading hours of the Stock Exchange), Hua Yu and HYY (an indirect subsidiary of the Company) entered into the Consultancy Service Agreement, pursuant to which Hua Yu will provide financial consultancy services to HYY.

CONSULTANCY SERVICE AGREEMENT

Date

30 September 2013

Parties

- (1) Hua Yu
- (2) HYY

Hua Yu is a professional investment fund management company incorporated in the PRC with limited liability in 2010 and its principal businesses are management of equity investment funds, establishment of equity investment funds, provision of investment consultancy and management service, and asset management.

Hua Yu is a subsidiary of CECEP. As CECEP(HK) is both the substantial Shareholder of the Company and a wholly-owned subsidiary of CECEP, Hua Yu is an associate of CECEP(HK) and is a connected person of the Company under the GEM Listing Rules.

Provision of financial consultancy services

Hua Yu shall provide the following financial consultancy services to HYY:

- (i) provide investment consultancy proposals to HYY;
- (ii) assist HYY in formulation of financing proposals of not less than RMB400,000,000;
- (iii) introduce qualified financial institutions to HYY, assist HYY in satisfying their due diligence requirements and engage in commercial negotiations with them until such qualified financial institutions are successfully introduced to HYY;
- (iv) assist HYY to complete the relevant approval process.

Term of service

The Consultancy Service Agreement is for a term of two years from its date of signing, provided that:

- (i) if Hua Yu fails to introduce financial institution(s) for providing funding of not less than RMB400,000,000 to HYY within two years after the date of the Consultancy Service Agreement, the Consultancy Service Agreement shall be terminated forthwith and Hua Yu will not be entitled to any payment of fee. No party shall have any claim for fee or compensation against the other party;

- (ii) after Hua Yu has successfully introduced financial institution(s) to HYY which have provided funding of not less than RMB400,000,000 to HYY and HYY has duly paid the Consultancy Fee to Hua Yu, the Consultancy Agreement will be terminated forthwith.

Consultancy Fee and its basis

Upon Hua Yu's successful introduction of financial institution(s) to provide funding in the sum of not less than RMB400,000,000 (equivalent to HK\$508,000,000) to HYY, HYY shall pay the Consultancy Fee in the sum of RMB7,700,000 (equivalent of HK\$9,779,000) to Hua Yu as an one-off payment.

HYY shall pay the Consultancy Fee to Hua Yu in cash within seven working days after HYY has obtained the funding of not less than RMB400,000,000 (equivalent to HK\$508,000,000) from the financial institution(s) introduced by Hua Yu. The Consultancy Fee will be paid from the internal resources of the Group.

The amount of Consultancy Fee is determined after arm's length negotiations between the parties having considered the substantial volume of works which have to be done by Hua Yu for HYY and the urgency of the required services. Assuming that the funding eventually obtained by HYY through introduction of Hua Yu is RMB400,000,000, the Consultancy Fee of RMB7,700,000 will be equivalent to 1.925% of such funding and is in line with the rate of consultancy fee chargeable by other similar independent third-party service providers in the market.

Breach of agreement and compensation

In the event that HYY fails to pay the Consultancy Fee on time, HYY will be liable to pay to Hua Yu a compensation in the sum equivalent to 0.01% of the Consultancy Fee for each day's delay.

Save and except agreed between the parties or due to force majeure events, any party who unilaterally terminates the Consultancy Service Agreement shall pay to the other party a compensation in the sum equivalent to 10% of the Consultancy Fee.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSULTANCY SERVICE AGREEMENT

The Company is an investment holding company and the Group is principally engaged in businesses for the promotion of application and its technology of utilization of ground source energy as alternative energy for heating (cooling) supply.

As disclosed in the announcement issued by the Company on 19 April 2013, HYY entered into a joint venture contract with Zhejiang CECEP for the establishment of the JV Company. The transactions contemplated under the JV Contract constitute a major and connected transaction of the Company under the GEM Listing Rules.

In view of the imminent financial needs of HYY to fulfill its obligation to contribute RMB294,000,000 (equivalent to approximately HK\$367,500,000) to the registered capital of the JV Company and the possible further investment which may be made to the JV Company, HYY needs to raise funds from third-party financial institution(s) and therefore needs Hua Yu to provide the necessary financial consultancy services and to introduce qualified third-party financial institution(s) to HYY.

The Directors (including the independent non-executive Directors) consider that:

- (a) the terms and conditions of the Consultancy Service Agreement are on normal commercial terms that are fair and reasonable; and
- (b) the entering into of the Consultancy Service Agreement is in the interest of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

Since the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the Consultancy Fee payable by HYY to Hua Yu are less than 5%, the entering into of the Consultancy Service Agreement constitutes a connected transaction of the Company which is only subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47 of the GEM Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 20 of the GEM Listing Rules.

The Board has approved HYY's entering into of the Consultancy Service Agreement and none of the Directors have any material interest in the transactions contemplated thereby. Mr. Zheng Qiyu, Mr. Zang Yiran, Mr. Zhao Youmin and Mr. Daiqi voluntarily abstained from voting at the related Board meeting to approve the Consultancy Service Agreement by virtue of being the Directors nominated by CECEP(HK).

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the meanings set out below:

“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CECEP”	China Energy Conservation and Environmental Protection Group* (中國節能環保集團公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC

“CECEP(HK)”	China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CECEP
“Company”	China Ground Source Energy Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules
“Consultancy Fee”	the consultancy fee of RMB7,700,000 (equivalent to HK\$9,779,000) payable by HYY to Hua Yu pursuant to the Consultancy Service Agreement
“Consultancy Service Agreement”	the consultancy service agreement dated 30 September 2013 entered into between Hua Yu and HYY in relation to the provision of financial consultancy services
“Directors”	the directors 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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Yu”	China Energy Conservation Hua Yu Fund Management Company Limited* (中節能華禹基金管理有限公司), a company incorporated in the PRC with limited liability and a subsidiary of CECEP
“HYY”	Ever Source Science and Technology Development Group Ltd.* (恒有源科技發展集團有限公司), a subsidiary indirectly-owned by the Company as to its 94.58% equity interests
“JV Company”	a company which will be incorporated and registered in the PRC and named as CECEP Green Construction (Hangzhou) Technology Development Ltd.* (中節能綠建(杭州)科技發展有限公司) pursuant to the JV Contract
“JV Contract”	the joint venture contract made between HYY and Zhejiang CECEP dated 19 April 2013 for the formation of the JV Company

“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Reminbi, the lawful currency of the PRC
“Shareholders”	the holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“Zhejiang CECEP”	Zhejiang CECEP Green Construction Environmental Protection Technology Ltd.* (浙江中節能綠建環保科技有限公司)
“%”	per cent

Conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1=HK\$1.27. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at such or any other rates or at all.

By order of the Board
CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED
Zheng Qiyu
Chairman

Hong Kong, 30 September 2013

As at the date of this announcement, the Board comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Mr. Zhao Youmin and Mr. Daiqi as non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang 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 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 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.

* for identification purpose only