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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)

**TERMINATION OF MAJOR AND CONNECTED TRANSACTION FOR
FORMATION OF JV COMPANY
AND
DISPOSAL OF EQUITY INTEREST IN JV COMPANY**

SPA

The Board announces that on 14 January 2014 (after trading hours), HYY (an indirect subsidiary of the Company) and the Purchaser entered into the SPA, pursuant to which the Purchaser has conditionally agreed to acquire, and HYY has conditionally agreed to dispose of the Equity Interest.

TERMINATION OF JV CONTRACT

The JV Contract dated 19 April 2013 entered into between HYY and Zhejiang CECEP for establishment of the JV Company is terminated upon signing of the SPA. The major and connected transaction for the Company constituted by the JV Contract is therefore terminated.

GENERAL

As the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the Disposal are less than 5%, the Disposal as contemplated under the SPA does not constitute a notifiable transaction for the Company under Chapter 19 of the GEM Listing Rules.

References are made to the announcement of the Company dated 19 April 2013 regarding a major and connected transaction in relation to the formation of the JV Company (the “**Announcement**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

SPA

The Board announces that on 14 January 2014 (after trading hours), HYY (an indirect subsidiary of the Company) and the Purchaser entered into the SPA, details of which are as follows:

Date

14 January 2014 (after trading hours)

Parties to the SPA

1. HYY; and
2. the Purchaser

The Purchaser is a company incorporated with limited liability in the PRC and is principally engaged in property development and sale of real estate. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are Independent Third Parties.

Assets to be disposed of

Pursuant to the SPA, the Purchaser has conditionally agreed to acquire, and HYY has conditionally agreed to sell, the Equity Interest.

Consideration

The Consideration for the Equity Interest is the total amount of the Deposit in the sum of RMB30,000,000 (equivalent to approximately HK\$38,100,000) plus an amount equal to 10.73% per annum on the Deposit calculated from the date of HYY's contribution of RMB30,000,000 to the registered capital of the JV Company to the date of the Purchaser's payment of the Deposit to HYY (the "**Premium**"), which shall be satisfied in cash and payable by the Purchaser to HYY in the following manner:

1. the Deposit shall be paid in full within five days after the SPA is signed; and
2. the Premium shall be paid upon completion of the transfer of the Equity Interest.

The Consideration was determined after arm's length negotiations between HYY and the Purchaser with reference to (i) the Group's total investment in the JV Company since the entering into the JV Contract; and (ii) the prevailing interest rate of the market.

Conditions Precedent

Completion is conditional upon satisfaction of the following conditions:

1. HYY shall co-operate with the Purchaser to complete the due diligence on the JV Company within 10 days after signing of the SPA; and
2. the due diligence results of the JV Company to be conducted by the Purchaser are satisfactory to the Purchaser.

Completion

Completion of the business registration for the transfer of Equity Interest shall take place within 75 days after the Deposit is paid.

Termination

If the Conditions Precedent cannot be fulfilled within six months from the date of the SPA without the fault of the Purchaser, or during the six months from the date of the SPA and before the Completion, it transpires that the information provided by HYY or the JV Company to the Purchaser is false, misleading or contains material omission, the Purchaser shall be entitled to terminate the SPA. If the aforesaid non-fulfilment of Conditions Precedent or default is caused by HYY, HYY shall pay compensation to the Purchaser in the sum equivalent to twice of the Deposit received by HYY.

If the Conditions Precedent cannot be fulfilled within six months from the date of the SPA without the fault of HYY, HYY shall be entitled to terminate the SPA, and if the non-fulfilment of the Conditions Precedent is caused by the Purchaser, HYY is entitled to forfeit the Deposit paid by the Purchaser to HYY as compensation.

TERMINATION OF JV CONTRACT

On 19 April 2013 (after trading hours), HYY and Zhejiang CECEP entered into the JV Contract in relation to the establishment of the JV Company, which was originally agreed to be owned by Zhejiang CECEP and HYY as to 51% and 49% with a registered capital of RMB600,000,000 (equivalent to approximately HK\$762,000,000).

As at the date of this announcement, the JV Company has been established and each of HYY and Zhejiang CECEP has respectively contributed RMB30,000,000 (equivalent to approximately HK\$38,100,000) and RMB306,000,000 (equivalent to approximately HK\$388,620,000) to the registered capital of the JV Company.

The JV Contract is terminated upon signing of the SPA. The major and connected transaction for the Company constituted by the JV Contract is therefore terminated. No penalty, damages and compensation will have to be made by HYY as a result of the Termination and therefore the Termination will not cause any material adverse impact on the financial position or business operation of the Group.

INFORMATION ON THE JV COMPANY

The JV Company was incorporated in PRC with limited liability and is principally engaged in a project which essentially involves the development of the Land situated at West Lake District in Hangzhou City, PRC.

REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Company is principally engaged in environmental protection and new energy businesses with marketing modality of pursuing integrated services including investment, system installation and operation in promoting the shallow ground source energy as alternative energy for heating (cooling).

Upholding the business concept that industrialization based on original innovative technologies is the foundation of a country and healthy industrial development is the route to prosperity, the Group managed to upgrade the traditional heating industry which produces emission and pollution in the process of combustion into the emerging “shallow ground source integrated heating and cooling energy” industry featuring nil combustion, emission and pollution in the heating process with its unremitting efforts. In addition, the Company strategically divested the commodity residential project in Xixi Town of Zhejiang Province. The Directors are of the view that the Disposal is in line with the strategic development of the Company and provides an opportunity for the Group to generate gains from realizing its investment in the JV Company and to devote its resources to the operation of the business of the Group as well as improving the working capital of the Group. It is also intended that the proceeds from the Disposal will be used for general working capital of the Group.

In view of the aforesaid, the Directors consider that the terms of the SPA are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

Currently, the Group has the capacity to develop urban utility infrastructures with “5-900MW distributed shallow ground source energy cooling/heating stations” and owns “shallow ground source energy heat pump environmental systems” for heating and cooling in large-size single towers and building clusters, as well as “shallow ground source energy heaters” for individual rural households.

The Group is of the view that the wide application of non-combustion shallow ground source energy heating will contribute to the combat against smog and haze in China.

The essence of industrial upgrade lies in the Group’s original innovative technologies which enable industrialization and satisfy the upgrading needs of a traditional industry to cope with the industrial development requirements in a new era. The development of “HYY Integrated Shallow Ground

Source Heating and Cooling Energy Emerging Industrial Park” is demonstrated by the construction of regional shallow ground source heating and cooling energy industrial parks and the manufacturing of system products based on the regional characteristics of the heating industry, so as to ensure wide application of shallow ground source energy for heating and the establishment of an operation assurance system in the locality.

The Board believes that local production for local application is a standard protocol which can be easily replicated for rapid growth. It allows the Company to enhance its competitiveness and operational efficiency, and empowers the Group’s five business models, taking shallow ground source energy as an alternative heating energy, to promote the emerging business of integrated shallow ground source energy for heating and cooling.

GENERAL

As the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the Disposal are less than 5%, the Disposal as contemplated under the SPA does not constitute a notifiable transaction for the Company under Chapter 19 of the GEM Listing Rules.

DEFINITIONS

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

“Completion”	completion of the sale and purchase of the Equity Interest in accordance with the terms and conditions of the SPA
“Conditions Precedent”	the conditions precedent for Completion
“Consideration”	the total consideration for the Equity Interest in the sum of RMB30,000,000 (equivalent to approximately HK\$38,100,000) plus an amount equal to 10.73% per annum on RMB30,000,000 calculated from the date of HYY’s contribution to the registered capital of the JV Company to the date of the Purchaser’s payment of the Deposit to HYY
“Deposit”	the deposit in the sum of RMB30,000,000 (equivalent to approximately HK\$38,100,000) in cash payable by the Purchaser to HYY within 5 days after the SPA is signed
“Disposal”	the disposal of the Equity Interest by HYY to the Purchaser pursuant to the SPA
“Equity Interest”	the rights to inject capital into the JV Company up to 49% of its total registered capital and RMB30,000,000 (equivalent to approximately HK\$38,100,000) registered capital in the JV Company injected and owned by HYY

“Independent Third Party(ies)”	third party(ies) who is/are independent from the Company and its connected person(s)
“Land”	the piece of land situated at Xixi Town (西溪), West Lake District, Hangzhou City, the PRC
“Purchaser”	Tianjin RongChuang AoCheng Investment Company Limited* (天津融創奧成投資有限公司), a company incorporated in PRC with limited liability
“SPA”	the sale and purchase agreement dated 14 January 2014 entered into between HYY and the Purchaser for the sale and purchase of the Equity Interest
“Termination”	the termination of the JV Contract dated 19 April 2013 entered into between HYY and Zhejiang CECEP in relation to the formation of the JV Company

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, 14 January 2014

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. Daigi 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*