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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)

CONTINUING CONNECTED TRANSACTION

THE FINANCIAL SERVICES AGREEMENT

The Board announces that on 24 March 2016 (after trading hours), the Company entered into the Financial Services Agreement with the Finance Company whereby the Finance Company has conditionally agreed to provide the Deposit Services, the Settlement Services, the Loan and Guarantee Services and the Other Financial Services to the member(s) of the Group, subject to the terms and conditions provided therein for the period commencing from the Effective Date to 31 December 2018. The proposed annual caps for relevant services shall not be more than the amounts prescribed as set out below.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. The Finance Company is a wholly owned subsidiary of CECEP and therefore is a connected person of the Company.

In relation to the Deposit Services, deposits made by member(s) of the Group to the Finance Company represents financial assistance provided by such member(s) to a connected person. Given that the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) the deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits, it is considered to be on normal commercial terms or better. Pursuant to Chapter 20 of the GEM Listing Rules, the Deposit Services is fully exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements.

The Loan and Guarantee Services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement will be subject to security over asset(s) of the Group (where applicable) which will be pledged in respect of each loan in favor of the Finance

Company. Pursuant to Rule 20.88 of the GEM Listing Rules, the Loan and Guarantee Services will constitute a continuing connected transaction on part of the Company and is subject to the reporting, announcement, annual review and Independent Shareholders' approval accordingly.

As the applicable percentage ratios of the total fees payable by the Company to the Finance Company in respect of the Other Financial Services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 20 of the GEM Listing Rules, the Other Financial Services will be fully exempt from the reporting, announcement, annual review, and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above, the Company will seek the Independent Shareholders' approval for the applicable transaction under the Financial Services Agreement, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

A circular which contains, among other information, (1) a letter from the Board containing further details of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (3) a letter from the independent financial adviser to the Independent Board Committee in respect of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (4) notice of convening the EGM; and (5) other information as required under the GEM Listing Rules, will be despatched to the Shareholders on or before 19 April 2016.

THE FINANCIAL SERVICES AGREEMENT

Date:

24 March 2016 (after trading hours)

Parties:

- I. the Company (on behalf of its subsidiaries); and
- II. the Finance Company (as service provider)

Term:

For the period commencing from the Effective Date to 31 December 2018.

Services to be provided:

The services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement include the Deposit Services, the Settlement Services, the Loan and Guarantee Services, and the Other Financial Services.

1. *The Deposit Services*

The Finance Company would provide, inter alia, demand deposit, saving deposit, notice deposit and agreed deposit. The interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits. In the event the Finance Company cannot repay the deposits on demand, the Group has the discretion to apply the deposits to set off the outstanding loan amount which the Group owned to the Finance Company.

2. *The Settlement Services*

The Finance Company would provide collection and payment services and other relevant clearing and settlement services for the member(s) of the Group free of charge.

3. *The Loan and Guarantee Services*

Subject to the compliance of other applicable laws and regulations, the internal compliance and approval of the Finance Company and the entering of definitive agreement, the Finance Company would provide the Loan and Guarantee Services to the member(s) of the Group in aggregate amount RMB1,070,000,000 with the following breakdown:

- (a) loan amount: RMB300,000,000, where each loan has a maximum term of 12 months;
- (b) acceptance bill: RMB10,000,000;
- (c) bill discounting: RMB50,000,000;
- (d) letter of guarantee: RMB10,000,000, where each letter of guarantee has a maximum term of 12 months;
- (e) guarantee amount: RMB200,000,000; and
- (f) project loan: RMB500,000,000.

Subject to the compliance of other applicable laws and regulations, the Finance Company warrants to charge interests and/or fees for the above services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the

PRC are offering or charging. Upon granting of the relevant amount, the Finance Company can request the Company and/or its affiliates to provide corporate guarantees, floating charges over certain assets as collateral, fixed charges over certain assets as collateral or negative pledging over certain assets as collateral. However, the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the loan amount.

4. *The Other Financial Services:*

Subject to the entering of definitive agreement, the Finance Company would also provide advisory, analytical and planning services in relation to: financial management, investments and fund raising, merger and acquisition, and assets and debts reorganization. The level of charges for the above services would be in compliance with the PBOC and the CBRC's guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group.

Condition Precedents:

The taking effect of the Financial Services Agreement is conditional upon the Independent Shareholders' approval of (i) the Financial Services Agreement; and (ii) the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM. If the above condition is not fulfilled on or before 31 October 2016 (or such later date as may be agreed between the parties), the Financial Services Agreement and all rights and obligations thereunder will be terminated, and no party shall have any claim against the other party except in respect of any antecedent breach.

PROPOSED ANNUAL CAPS

The Company proposed the annual caps for the service fees payable (including interests payable, where applicable) by the Group to the Finance Company in relation to the Loan and Guarantee Services from the Effective Date to 31 December 2018 are as follow:

	From Effective Date to 31 December 2016	From 1 January 2017 to 31 December 2017	From 1 January 2018 to 31 December 2018
The Loan and Guarantee Services	RMB1,070,000,000	RMB1,070,000,000	RMB1,070,000,000

Basis of the Proposed Annual Caps:

The Loan and Guarantee Services:

The proposed annual caps were determined after taking into account of the total loans and guaranteed amount serviced by independent third party to the Group as at 30 June 2015 of approximately HK\$500 million and the existing business' potential funding requirement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES AGREEMENT

The Financial Services Agreement entered into by the respective parties is in the ordinary and usual course of business of the Group. The Directors (excluding the independent non-executive Directors whose view(s) will be contained in the circular to be despatched to the Shareholders) considered that:

1. the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits, are on equal or better terms than those available from independent third parties;
2. the collection and payment services and other relevant clearing and settlement services provided by the Finance Company to the member(s) of the Group are free of charge, which the Company could benefit from;
3. the Finance Company warrants to charge interests and/or fees in respect of the Loan and Guarantee Services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging, which the Company would benefit from;
4. the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the loan amount, is fair and reasonable; and
5. the level of charges in respect of the Other Financial Services provided by the Finance Company would be in compliance with the PBOC and the CBRC's guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group, is fair and reasonable.

In view of the above, the Directors (excluding the independent non-executive Directors whose view(s) will be contained in the circular to be despatched to the Shareholders) considered that the terms of the Financial Services Agreement are on normal commercial terms and on terms equal to or better than those available from independent third parties under the prevailing local market conditions. The

Financial Services Agreement and the related proposed annual caps are fair and reasonable, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON CECEP AND THE FINANCE COMPANY

CECEP is a company incorporated with limited liability in the PRC and is principally engaged in research and development of energy conservation, environmental protection and new energy technology, investments in projects and construction operation.

The Finance Company is incorporated in the PRC and is a wholly owned subsidiary of CECEP. It holds a Financial Permit (金融許可證) issued by the CBRC. Under the applicable laws and regulations, the Finance Company is permitted to, inter alia, receiving deposit(s) from, lending to and providing associate financial services to: (i) CECEP and/or CECEP's subsidiaries and/or any of the business unit or corporation of CECEP and/or its subsidiaries; (ii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is not less than 20%; (iii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is less than 20% but is the single largest shareholder of the relevant company.

The scope of business of the Finance Company includes: the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; provision of guarantees to member companies and dealing with entrusted loans among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; provision of loans and finance leasing services to member companies; provision of intra-group funds transfer and settlement services to member companies.

INFORMATION ON THE GROUP

The Company is an investment holding company, whose subsidiaries are principally engaged in the research, development and promotion of shallow ground source energy as alternative energy to provide heating for buildings and is committed to the industrialization development of the original technology which can accelerate the all-around upgrade and transformation of the traditional heating industry with combustion, emissions and pollution to an emerging industry of combustion-free integrated heating and cooling system with shallow ground source energy.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. The Finance Company is a wholly owned subsidiary of CECEP and therefore is a connected person of the Company.

In relation to the Deposit Services, deposits made by member(s) of the Group to the Finance Company represents financial assistance provided by such member(s) to a connected person. Given that the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) the deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits, it is considered to be on normal commercial terms or better. Pursuant to Chapter 20 of the GEM Listing Rules, the Deposit Services is fully exempt from the reporting, announcement, annual review and Independent Shareholders' approval requirements.

The Loan and Guarantee Services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement will be subject to security over asset(s) of the Group (where applicable) which will be pledged in respect of each loan in favor of the Finance Company. Pursuant to Rule 20.88 of the GEM Listing Rules, the Loan and Guarantee Services will constitute a continuing connected transaction on part of the Company and is subject to the reporting, announcement, annual review and Independent Shareholders' approval accordingly.

As the applicable percentage ratios of the total fees payable by the Company to the Finance Company in respect of the Other Financial Services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 20 of the GEM Listing Rules, the Other Financial Services will be fully exempt from the reporting, announcement, annual review, and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above, the Company will seek the Independent Shareholders' approval for the applicable transaction under the Financial Services Agreement, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

CECEP (HK) and its associates will abstain from voting on the resolutions approving the Financial Services Agreement and the respective proposed annual caps at the EGM. To the best knowledge, information and belief of the Directors, as at the date of this announcement, no Shareholder (excluding CECEP (HK) and its associates) are required to abstain from voting on the resolutions approving the Financial Services Agreement and the related proposed annual caps at the EGM.

GENERAL

A circular which contains, among other information, (1) a letter from the Board containing further details of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (3) a letter from the independent financial adviser to the Independent Board Committee in respect of the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps; (4) notice of convening the EGM; and (5) other information as required under the GEM Listing Rules, will be despatched to the Shareholders on or before 19 April 2016.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions having the following meanings:

“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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 (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by CECEP
“Company”	China Ground Source Energy Industry Group Limited (中國地能產業集團有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Continuing Connected Transaction”	the Loan and Guarantee Services
“Deposit Services”	inter alia, demand deposit, saving deposit, notice deposit and agreed deposit services proposed to be provided by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“Directors”	the directors of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Financial Services Agreement or 1 May 2016, whichever is later

“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps for the period commencing from the Effective Date to 31 December 2018
“Finance Company”	China Energy Finance Company Limited* (中節能財務有限公司), a limited liability company incorporated in the PRC and a wholly owned subsidiary of CECEP
“Financial Services Agreement”	the financial services agreement dated 24 March 2016 entered into between the Finance Company and 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 from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai, established to advise the Independent Shareholders in respect of the terms of the Financial Services Agreement, the Continuing Connected Transaction and related proposed annual caps and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates, and any other persons who are required to abstain from voting on the respective resolutions on approving the Financial Services Agreement, the Continuing Connected Transaction and the related proposed annual caps for the period commencing from the Effective Date to 31 December 2018 at the EGM pursuant to the GEM Listing Rules
“Loan and Guarantee Services”	the provision of guarantee services and the granting of loans by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement

“Other Financial Services”	other financial services by the Finance Company to members of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“PBOC”	the People’s Bank of China, the central bank of the PRC with the statutory authority to, inter alia, control monetary policy in the PRC
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the free cash clearance and settlement services provided by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“Shareholders”	the holders of the Shares
“Share(s)”	ordinary share(s) of US\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“%”	per cent

By order of the Board
China Ground Source Energy Industry Group Limited
Liu Dajun
Joint Chairman & Executive Director

Hong Kong, 24 March 2016

As at the date of this announcement, the Board comprises Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine 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. Zhang Honghai 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 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 at 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.