

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)

CONTINUING CONNECTED TRANSACTION

THE SALE AND PURCHASE FRAMEWORK AGREEMENT

The Board announces that on 4 May 2016 (after trading hours), the Company entered into the Sale and Purchase Framework Agreement with CECEP pursuant to which, CECEP and its subsidiaries conditionally agreed to purchase, and the Company and its subsidiaries conditionally agreed to provide, the Products and the Services, subject to the terms and conditions provided therein for the period from the Effective Date to 31 December 2018. The proposed annual caps for the Supply Transactions shall not be more than the amounts prescribed pursuant to the Sale and Purchase Framework Agreement.

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. Thus, CECEP is a connected person of the Company pursuant to the GEM Listing Rules.

Accordingly, the Supply Transactions under the Sale and Purchase Framework Agreement will constitute a continuing connected transaction on the part of the Company pursuant to Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements. The Company will seek the Independent Shareholders' approval for the Sale and Purchase Framework Agreement, the Continuing Connected Transaction, 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 Sale and Purchase Framework 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 Sale and Purchase Framework 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 Sale and Purchase Framework 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 25 May 2016.

THE SALE AND PURCHASE FRAMEWORK AGREEMENT

Date:

4 May 2016 (after trading hours)

Parties:

1. the Company (as vendor); and
2. CECEP (as purchaser)

Term:

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

Description of the Supply Transactions:

The Company and its subsidiaries have conditionally agreed to sell, and CECEP and its subsidiaries have conditionally agreed to purchase, the Products and the Services during the term of the Sale and Purchase Framework Agreement, subject to the terms and conditions stated therein.

Condition Precedents:

The taking effect of the Sale and Purchase Framework Agreement is conditional upon the Independent Shareholders' approval of (i) the Sale and Purchase Framework 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 30 September 2016 (or such later date as may be agreed between the parties), the Sale and Purchase Framework 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 in relation to the Supply Transactions for each of the three calendar years ending 31 December 2018 is RMB80,000,000.

Basis of the selling price of the Products and the Services:

The actual selling price of the Products and the Services is to be determined after arm's length negotiations between the parties and having considered the market conditions, and which shall be fair and reasonable for the Company and its Shareholders as a whole. Such selling price will not be less than the average price at which the Products and the Services are sold and provided by the Company and its subsidiaries to any third parties.

Basis of Proposed Annual Caps:

The proposed annual caps for the Supply Transactions for the period from the Effective Date to 31 December 2018 are determined by reference to (a) the current price of the Products and Services; and (b) the expected demand of the Products and Services from CECEP and its subsidiaries during the term of the Sale and Purchase Framework Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE FRAMEWORK AGREEMENT

Since the 2013 Agreement expired on 31 December 2015, the Company and CECEP wish to enter into an agreement to renew the principal terms of the 2013 Agreement for the purpose to continue the supply of the Products and the provision of Services by the Group to CECEP where it had enhanced the business cooperation between the Group and CECEP. As a result, the Company and CECEP entered into the Sale and Purchase Framework Agreement in relation to the Supply Transactions for the period from the Effective Date to 31 December 2018. The Sale and Purchase Framework Agreement, therefore, represents a continuance of the 2013 Agreement. There has not been and will not be similar transaction conducted or to be conducted between the Group and CECEP during the period from the expiry of the 2013 Agreement on 31 December 2015 to the Effective Date.

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

- (a) the terms and conditions of the Sale and Purchase Framework Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms, which are fair and reasonable;
- (b) the proposed annual caps in respect of the Supply Transactions for the period from the Effective Date to 31 December 2018 as referred to above are fair and reasonable; and
- (c) the transactions contemplated therein will be conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

INFORMATION ON CECEP

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.

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. Thus, CECEP is a connected person of the Company pursuant to the GEM Listing Rules.

Accordingly, the Supply Transactions under the Sale and Purchase Framework Agreement will constitute a continuing connected transaction on part of the Company pursuant to Chapter 20 of the GEM Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements. The Company will seek the Independent Shareholders' approval for the Sale and Purchase Framework Agreement, the Continuing Connected Transaction 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 resolution(s) approving the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the related 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) is required to abstain from voting on the resolution(s) approving the Sale and Purchase Framework Agreement, the Continuing Connected Transaction 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 Sale and Purchase Framework 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 Sale and Purchase Framework 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 Sale and Purchase Framework 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 25 May 2016.

DEFINITIONS

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

“2013 Agreement”	the framework agreement dated 21 March 2013 for the sale and purchase of the Products and Services entered into between the Company and CECEP
“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* (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 Supply Transactions
“Directors”	the directors of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Sale and Purchase Framework Agreement or 16 May 2016, whichever is later

“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the related proposed annual caps for the period from the Effective Date to 31 December 2018
“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
“HYY”	Ever Source Science and Technology Development Group Co., Ltd.* (恆有源科技發展集團有限公司), a wholly-owned subsidiary of the Company
“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 Sale and Purchase Framework Agreement, the Continuing Connected Transaction and related proposed annual caps and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates
“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
“Products”	products using “HYY single-well circulation for heat exchange geothermal energy collection technology”, an original innovation of the Group as focus, and using shallow ground energy as alternative energy for heating/cooling, including but not limited to, the “HYY ground source energy heat pump environmental system”, “HYY ground energy heating device” and the “HYY multi-source distributed energy stations”
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Framework Agreement”	the framework agreement dated 4 May 2016 for the sale and purchase of the Products and the Services made between the Company and CECEP

“Services”	operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products
“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
“Supply Transactions”	the supply of the Products and the provision of Services under the Sale and Purchase Framework Agreement
“%”	per cent

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

Hong Kong, 4 May 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.cgseenergy.com.hk.