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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Ground Source Energy Industry Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)**

**AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
CONTINUING CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Hooray Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 15 to 26 of this circular.

A notice convening the EGM to be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 26 September 2016 at 11:00 a.m. is set out on pages 53 to 55 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" section of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least 7 days from the date of its posting and on the website of the Company at ([www.cgsenergy.com.hk](http://www.cgsenergy.com.hk)).

30 August 2016

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2013 Agreement”	the framework agreement dated 21 March 2013 for the sale and purchase of the Products and provision of Services entered into between the Company and CECEP
“Articles”	the Articles of Association of the Company as amended from time to time
“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 Company* (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 and Environmental Protection (Hong Kong) Investment Company 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
“Circular”	the circular of the Company dated 30 August 2016 in relation to, among other matters, details of proposed amendments to the Articles, 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 to be considered and approved at the EGM
“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”	collectively the Supply Transactions
“Director(s)”	the director(s) 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 the later

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the proposed amendments to the Articles, 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
“EGM Notice”	the notice of the EGM dated 30 August 2016
“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 the related proposed annual caps for the period from the Effective Date to 31 December 2018 and the transactions contemplated thereunder
“Independent Financial Adviser” or “Hooray Capital”	Hooray Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of 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
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates
“Latest Practicable Date”	24 August 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“PRC”	the People’s Republic of China which, for the purposes of this Circular, 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, “HYY ground source energy heat pump environmental system”, “HYY ground energy heating device” and “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 provision of 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) 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 provision of Services under the Sale and Purchase Framework Agreement
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent

\* *For identification purposes only*

*In case of any discrepancy between the English version and the Chinese version of this circular, the English version shall prevail.*

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Liu Dajun  
Mr. Xu Shengheng  
Ms. Chan Wai Kay, Katherine  
Mr. Zang Yiran

*Non-executive Directors:*

Mr. Zhao Youmin  
Mr. Daiqi

*Independent non-executive Directors:*

Mr. Jia Wenzeng  
Mr. Wu Desheng  
Mr. Zhang Honghai

*Registered office:*

Floor 4, Willow House,  
Cricket Square,  
P.O. Box 2804,  
Grand Cayman KY1-1112,  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Units 3709-10, 37/F,  
The Center,  
99 Queen's Road Central,  
Central, Hong Kong

30 August 2016

*To the Shareholders,*

Dear Sir or Madam,

**AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
CONTINUING CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

The purpose of this circular, among other matters, is to provide you with the relevant information regarding the amendments to the Articles, the Continuing Connected Transaction and to give you the notice of EGM.

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## LETTER FROM THE BOARD

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### 2. PROPOSED AMENDMENTS TO THE ARTICLES

The Board proposes to amend the Articles with a view to:

1. bringing the existing Articles in line with (i) the New Companies Ordinance; and (ii) the GEM Listing Rules (as amended) whereby, among other things, the definition of “associate” in Chapter 1 of the GEM Listing Rules is renamed as “close associate”;
2. expressly providing that the Directors may elect among themselves up to two Joint Chairmen of the Board and up to two Deputy Joint Chairmen of the Board.

Details of the proposed amendments to the Articles are set out in Appendix I to this circular.

The legal advisers to the Company as to Hong Kong laws and Cayman Islands laws have respectively confirmed that the proposed amendments comply with the requirements of the GEM Listing Rules and do not contravene the applicable laws of the Cayman Islands. The Company also confirms that there is nothing unusual about the proposed amendments to the Articles for a Cayman Islands company listed on the Stock Exchange.

Shareholders are advised that the Articles are available only in English and Chinese translation of the amendments to the Articles provided in Appendix I in Chinese is for reference only. In case of any inconsistency, the English version shall prevail.

### 3. CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 4 May 2016 in relation to the entering of the Sale and Purchase Framework Agreement. Pursuant to the requirements under the GEM Listing Rules, the Company will seek the Independent Shareholders’ approval in relation to 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. The Sale and Purchase Framework Agreement is materially the same as the 2013 Agreement, which was expired on 31 December 2015.

The purposes of this circular are to provide you with (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 Hooray Capital to the Independent Board Committee and the Independent Shareholders 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 Rule.

#### **Sale and Purchase Framework Agreement**

*Date:*

4 May 2016 (after trading hours)



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## LETTER FROM THE BOARD

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***Parties:***

- I. the Company (as vendor); and
- II. CECEP (as purchaser)

***Term:***

For a 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 provide, 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. In addition, 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 under normal circumstances for comparable transactions.

The basis of the selling price of the Products and Services in relation to the Sale and Purchase Framework Agreement and those under the 2013 Agreement are materially the same, of which the selling prices of the Products, where applicable, are further made reference to the Information of Construction and Engineering Costs\* (工程造價信息) as pricing guidelines which is issued by the local government where the respective project is to be carried out, and to be adjusted by various

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## LETTER FROM THE BOARD

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factors such as constructional complexity involved (including but not limited to, geological technical difficulties and complexity), additional value added services or workload required and customized specifications required. Historically, approximately 65% of the projects of the Group are carried out in Beijing, and all the Products involved have made reference to the Information of Construction and Engineering Costs of Beijing\* (北京市工程造價信息) (the August 2016 edition can be found at <http://www.bjjs.gov.cn/Portals/0/files/jsgczjglc/8%E4%BD%8D%E7%A0%8108%E6%9C%88%E4%BB%B7%E6%A0%BC%EF%BC%88%E6%80%BB193%EF%BC%89.pdf>). For Products that are not included in the Information of Construction and Engineering Costs\* and the provision of Services, the Group is charging at market comparable rates to ensure competitiveness. The Group also applies the same pricing policy onto independent customers. In addition, the average gross margins for the Products and Services to CECEP and its subsidiaries shall be in line with independent customers, and in any event would not be lower than the minimum gross margin recorded with independent customers under normal circumstances for comparable transactions.

Having considered that (i) the terms of Products and Services offered by the Group to CECEP and its subsidiaries will be similar to terms offered to independent third parties and are not less favorable to the Group; and (ii) the pricing policy for Products and Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, same of which will be consistently applied for the Supply Transactions under the Sale and Purchase Framework Agreement, the Directors (including the independent non-executive Directors after taking into account the advice of Hooray Capital) consider that the terms under the Sale and Purchase Framework Agreement and the pricing of the Products and Services are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### ***Basis of the 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.

The relevant annual caps under the 2013 Agreement were as follow:

	<b>From 13 June 2013 to 31 December 2013 (RMB)</b>	<b>From 1 January 2014 to 31 December 2014 (RMB)</b>	<b>From 1 January 2015 to 31 December 2015 (RMB)</b>
Aggregate of the sale and purchase of the Products and provision of Services	87,000,000	167,000,000	222,000,000

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## LETTER FROM THE BOARD

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The actual utilized amount of the relevant annual caps in relation to the 2013 Agreement were as follow:

	<b>From 13 June 2013 to 31 December 2013 approximately (RMB)</b>	<b>From 1 January 2014 to 31 December 2014 approximately (RMB)</b>	<b>From 1 January 2015 to 31 December 2015 approximately (RMB)</b>
Sale and purchase of the Products and the provision of Services	1,407,000	4,993,000	2,322,000

The Group would only allocate resources and manpower to projects for CECEP and its subsidiaries upon the entering of definitive agreement(s) between both parties. Since no definitive agreement in respect of the unutilized amount of Products and Services under the relevant annual caps was entered between the Group and CECEP, no cost was incurred to the Group in this regard.

In respect of the expected demand of the Products and Services from CECEP and its subsidiaries during the term of the Sale and Purchase Framework Agreement is made reference to, inter alia, the relevant annual caps under the 2013 Agreement against the actual utilized amount under the respective periods.

The Company noticed that there has been continuous promotion on the utilization of renewable and alternative energy in state policies and guidances. Each of the proposed annual caps of the Supply Transactions under the Sale and Purchaser Framework Agreement only represents approximately 29.81% of the audited revenue of the Group of approximately HK\$319,354,000 for the year ended 31 December 2015 (based on the conversion rate of RMB1 to HK\$1.19, where each of the proposed annual caps of the Supply Transactions is equal to approximately HK\$95.2 million). Since the utilization of the relevant annual caps during the term of the 2013 Agreement were relatively low, the proposed annual caps for the Supply Transactions under the Sale and Purchase Framework Agreement have been adjusted accordingly as compared to those under the 2013 Agreement, which the Directors believe that the proposed annual caps for the Supply Transactions represent the potential sales target of the Group generated from CECEP and its subsidiaries.

The proposed annual caps for the Supply Transactions were negotiated between the Company and CECEP shortly after the expiry of the 2013 Agreement on 31 December 2015. Due to the internal approval time of the proposed annual caps for the Supply Transactions took longer than expected on the part of CECEP, the Sale and Purchase Framework Agreement was not signed by the Company and CECEP until May 2016. The Directors have considered to adjust the proposed annual cap for the year ended 31 December 2016 to reflect the revised expected effective date, being mid-year of 2016. However, the Directors cannot rule out the possibility that any revision on the proposed annual caps for the Supply Transactions under the Sale and Purchase Framework Agreement would not lead to delay similar to which took place earlier on, and given that no cost will be incurred to the Group for any unutilized amount of the Products and Services under the proposed annual caps for the Supply

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## LETTER FROM THE BOARD

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Transactions, the Directors concluded to continue in employing the amount of the proposed annual cap for the year ending 31 December 2016 as negotiated and mutually agreed by the Company and CECEP in early 2016.

Having considered that (a) the Supply Transactions is in the ordinary course of business of the Group; (b) the terms under the Sale and Purchase Framework Agreement are fair and reasonable and on terms not less favourable to the Group; and (c) there will be no cost incurred or material adverse effect to the Group for any unutilized amount under the proposed annual caps for the Supply Transactions, the Directors (including the independent non-executive Directors after taking into account the advice of Hooray Capital) consider the setting of the proposed annual caps in relation to the Sale and Purchase Framework Agreement at the current level are appropriate, fair and reasonable and do not represent any disadvantage to the Company and the Shareholders as a whole.

### **Internal Control**

The Company will assess the contracts with independent customers in the preceding half-year period before the entering of the definitive agreement between the Company and CECEP for the Products and Services and formulate a pricing guideline (based on the average selling price and prevailing average gross profit margin to be determined with consideration of various factors including but not limited to labour cost and equipment costs, for the Products and Services that have been sold to independent customers in the preceding half-year period). The personnel in the finance department of the Group in the PRC is/are responsible for reviewing, calculating or approving the selling price offered and the contracts with CECEP to ensure that the actual transactions under the Sale and Purchase Framework Agreement will be conducted on normal commercial terms and on terms similar to the independent customers which are not less favourable to the Group and in line with the average gross profit margin of the Company for comparable transactions. All of these information will then be included in a report to be submitted to the chief financial officer of the Group for review, verification and approval.

The above internal control procedures has been modified and improved by the Company for the Supply Transactions, of which is principally based on the internal control procedures adopted for the 2013 Agreement to ensure that the Continuing Connected Transaction will be conducted in accordance with the terms under the Sale and Purchase Framework Agreement and on normal commercial terms and in the interests of the Company and the Shareholders as a whole and in compliance with the GEM Listing Rules.

### **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

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## LETTER FROM THE BOARD

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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 (including the independent non-executive Directors after taking into account the advice of Hooray Capital) 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;
- (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;
- (d) the terms of Products and Services offered by the Group to CECEP and its subsidiaries are similar to terms offered to independent third parties and are not less favorable to the Group, which is in the interest of the Company and the Shareholders as a whole;
- (e) the pricing policy for Products and Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, same of which will be consistently applied for the Supply Transactions under the Sale and Purchase Framework Agreement, which is fair and reasonable;
- (f) the reduction of the proposed annual caps for the sale and purchase of the Products and provision of Services has taken into account of the unutilized caps under the 2013 Agreement, which is fair and reasonable; and
- (g) the downward adjustment of the proposed annual caps for the sale and purchase of the Products and provision of Services will not have any cost incurred or material impact or adverse effect to the Group, the setting of the proposed annual caps for the Supply Transactions at the current level is appropriate, fair and reasonable and do not represent any disadvantage to the Company and the Shareholders as a whole.

In view of the above, the Directors (including the independent non-executive Directors after taking into account the advice of Hooray Capital) considered that the terms of the Sale and Purchase Framework Agreement are on normal commercial terms and on terms similar to the terms offered to independent third parties under the prevailing local market conditions and are not less favourable to the Group. The Sale and Purchase Framework 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.

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## LETTER FROM THE BOARD

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None of the Directors has any interest in the transactions contemplated under the Sale and Purchase Framework Agreement. However, as Mr. Liu Dajun, Mr. Zang Yiran, Mr. Zhao Youmin and Mr. Daiqi were nominated by CECEP as Directors, for the sake of good corporate governance as well as to avoid any potential conflict of interest, they voluntarily abstained from voting on the Board resolution in relation to the Sale and Purchase Framework Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the “Letter from the Independent Board Committee” and “Letter from Hooray Capital” and their respective recommendations set out on page 14 and pages 15 to 26 of this circular, respectively.

### **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 Latest Practicable Date, 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.

As at the Latest Practicable Date, CECEP (HK) and its associates are interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company, will abstain from voting on the resolution approving the Sale and Purchase Framework Agreement and the respective proposed annual caps at the EGM. To the best knowledge, information and belief of the

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## LETTER FROM THE BOARD

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Directors, no Shareholder (excluding CECEP (HK) and its associates) are required to abstain from voting on the resolution approving the Sale and Purchase Framework Agreement and the related proposed annual caps at the EGM.

#### **4. EXTRAORDINARY GENERAL MEETING**

A notice convening the EGM is set out on pages 53 to 55 of this circular, ordinary resolution will be proposed to approve 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 and special resolution will be proposed to approve the proposed amendments to the Articles of Association and adoption of the amended and restated Articles of Association.

A proxy form for use at the EGM is enclosed with this circular. Whether or not a Shareholder intend to attend the EGM in person, such Shareholder is requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding of the EGM (or any adjournment thereof).

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM (or any adjournment thereof) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolution(s) proposed at the EGM shall be voted by poll.

#### **5. RECOMMENDATION**

The Directors consider that the proposed amendments to the Articles and the Continuing Connected Transaction at the EGM are in the best interest of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

In relation to the Continuing Connected Transaction, the Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) considers that the Sale and Purchase Framework Agreement and the Continuing Connected Transaction are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and will be similar to those offered to independent third parties which are not less favorable to the Group and in the interests of the Company and the Shareholders as a whole, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 for the Continuing Connected Transaction is fair and reasonable. Accordingly, the Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) recommends the Independent Shareholders to vote in favour of the ordinary

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## LETTER FROM THE BOARD

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resolution to be proposed at the EGM to approve 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.

Yours faithfully,

For and on behalf of

**China Ground Source Energy Industry Group Limited**

**Xu Shengheng**

*Joint Chairman & Executive Director*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

30 August 2016

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTION**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the proposed annual caps relating thereto, details of which are set out in the “Letter from the Board” to the circular dated 30 August 2016 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular shall have the same meaning when used in this letter unless otherwise requires.

We (i) have reviewed the Sale and Purchase Framework Agreement which we are of the view that terms thereunder are principally the same as those under the 2013 Agreement; (ii) are in the opinion that the Supply Transactions to be provided by the Group to CECEP and its subsidiaries under the Sale and Purchase Framework Agreement and the products and services under the 2013 Agreement provided by the Group to CECEP and its subsidiaries are similar in nature, both of which are part of the Group’s ordinary and usual course of business; (iii) are of the view that the pricing policy for Products and Services that has been practicing by the Group is referenced to the official guidelines and market comparable rates is fair and reasonable; and (iv) took into account the advice of Hooray Capital, we consider that the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the proposed annual caps relating thereto are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, in the ordinary course of business and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the proposed annual caps relating thereto.

Yours faithfully,

For and on behalf of

**the Independent Board Committee**

**Mr. Jia Wenzeng**

**Mr. Wu Desheng**

**Mr. Zhang Honghai**

*Independent non-executive Directors*

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## LETTER FROM HOORAY CAPITAL

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*The following is the full text of the letter from Hooray Capital setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of 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 and other matters contemplated thereunder, which has been prepared for the purpose of inclusion in this circular:*



30 August 2016

To: *the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to 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. Details of 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 are contained in the “Letter from the Board” as set out in the circular of the Company dated 30 August 2016 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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 sell and 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.

好盈融資有限公司

Hooray Capital Limited

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## LETTER FROM HOORAY CAPITAL

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As at the date of this letter, 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.

As at the Latest Practicable Date, CECEP (HK) and its associates are interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company, will abstain from voting on the resolution approving the Sale and Purchase Framework Agreement and the related proposed annual caps at the EGM. To the best knowledge, information and belief of the Directors, no Shareholder (excluding CECEP (HK) and its associates) are required to abstain from voting on the resolution approving the Sale and Purchase Framework Agreement and the related proposed annual caps at the EGM.

### **The Independent Board Committee**

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai, has been formed to advise the Independent Shareholders as to in respect of the fairness and reasonableness on the terms under 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. We, Hooray Capital Limited, have been appointed to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the Continuing Connected Transaction is conducted in the ordinary and usual course of business, the terms under the Sale and Purchase Framework Agreement are on normal commercial terms, and the Continuing Connected Transaction and the related proposed annual caps for the period from the Effective Date to 31 December 2018 are fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favor of the approval of 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. Our appointment has been approved by the Independent Board Committee.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we are independent from and not connected with the Company pursuant to Rule 17.96 of the GEM Listing Rules. Save for the letter of advice as the independent financial adviser to the independent board committee and independent shareholders of the Company dated 12 May 2016 in relation to the financial services to be provided to the Group by a connected party, we have not acted as the independent financial adviser for the Company's other transactions in the past two years. The transactions therein are not conditional upon to the Continuing Connected Transaction or vice versa. We are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our

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## LETTER FROM HOORAY CAPITAL

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appointment as the independent financial adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider that we are eligible to give independent advice on the terms of 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.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management. We have assumed that all information, facts, representation, opinions and statements made or referred to in the Circular were true, accurate and complete in all material aspects as at the Latest Practicable Date and will remain so up to the date of the EGM, and the Company will notify the Shareholders and the general public of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on such information. We, however, have not conducted any independent investigation or audit into the businesses, affairs, financial position or the future prospects of any members of the Group and the related subject of, and parties to, the Sale and Purchase Framework Agreement, nor have we carried out any independent verification of the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion stated hereinunder.

All the Directors are jointly and severally accept full responsibility for the accuracy of the information, facts and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed as well as statements made in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading.

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether to approve of 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, and save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM HOORAY CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to 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, we have taken into account the principal factors and reasons as set out below:

#### **1. Background of 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.

#### **2. Background of 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.

#### **3. Principal Terms of the Sale and Purchase Framework Agreement**

Pursuant to the terms under the Sale and Purchase Framework Agreement, the Company and its subsidiaries have conditionally agreed to sell and provide, and CECEP and its subsidiaries have conditionally agreed to purchase, the Products and the Services from the Effective Date to 31 December 2018.

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.

We have reviewed the Sale and Purchase Framework Agreement and have compared it with the 2013 Agreement, which we are of the view that the transactions and terms thereunder are principally the same. Having considered that (i) the terms under the Sale and Purchase Framework Agreement are on standard commercial terms and in arm's length basis; (ii) the Sale and Purchase Framework Agreement represents a continuance of the 2013 Agreement; (iii) the sale and purchase of the Products and provision of services by the Group to CECEP and its subsidiaries is in the ordinary and usual course of business of the Group; and (iv) the prices for the Products and Services offered to CECEP and its subsidiaries will not be less favourable to the Group, we are in the opinion that the Sale and Purchase Framework Agreement is on normal commercial terms and is fair and reasonable, and the entering of the Sale and Purchase Framework Agreement is in the interest of the Company and Shareholders as a whole.

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## LETTER FROM HOORAY CAPITAL

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#### 4. Proposed annual caps for the Supply Transactions

The Company proposed the annual caps in relation to the Supply Transactions for each of the three calendar years ending 31 December 2018 are as follows:

	<b>From Effective Date to 31 December 2016 (RMB)</b>	<b>From 1 January 2017 to 31 December 2017 (RMB)</b>	<b>From 1 January 2018 to 31 December 2018 (RMB)</b>
The Supply Transactions	80,000,000	80,000,000	80,000,000

#### 5. Basis of the selling price of the Products and the Services:

Pursuant to the terms under the Sale and Purchase Framework Agreement, 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, which shall be fair and reasonable for the Company and its Shareholders as a whole. In addition, 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 under normal circumstances for comparable transactions.

In respect of the basis of the selling price of the Products and Services in relation to the Sale and Purchase Framework Agreement, we have enquired the management of the Company and were given the understanding that such basis and those under the 2013 Agreement are materially the same, of which the selling prices of the Products, where applicable, are further made reference to the Information of Construction and Engineering Costs\* (工程造价信息) as pricing guidelines which is issued by the local government where the respective project is to be carried out, and to be adjusted by various factors such as constructional complexity involved (including but not limited to, geological technical difficulties and complexity), additional value added services or workload required and customized specifications required. Historically, approximately 65% of the projects of the Group are carried out in Beijing, and all the Products involved have made reference to the Information of Construction and Engineering Costs of Beijing\* (北京市工程造价信息) (the August 2016 edition can be found at <http://www.bjjs.gov.cn/Portals/0/files/jsgczjglc/8%E4%BD%8D%E7%A0%8108%E6%9C%88%E4%BB%B7%E6%A0%BC%EF%BC%88%E6%80%BB193%E6%89.pdf>). For Products that are not included in the Information of Construction and Engineering Costs\* and the provision of Services, the Group is charging at market comparable rates to ensure competitiveness. Since the Company has made references to the official guidelines such as the Information of Construction and Engineering Costs of Beijing\* and market comparable rates, we are in the opinion that the setting of the prices of the Products and Services in relation to the Sale and Purchase Framework Agreement is fair and reasonable and on normal commercial terms. Furthermore, the Group also applies the same standards onto independent customers which we are of the view that the pricing policy is not less favourable to the Group.

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## LETTER FROM HOORAY CAPITAL

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The management of the Company also indicated that the average gross margins for the Products and Services to CECEP and its subsidiaries shall be in line with independent customers, and in any event would not be lower than the minimum gross margin recorded with independent customers under normal circumstances for comparable transactions.

Having considered that (i) the terms of Products and Services offered by the Group to CECEP and its subsidiaries will be similar to terms offered to independent third parties and are not less favorable to the Group; (ii) the pricing policy for Products and Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, which have been and will be consistently applied for the Supply Transactions under the Sale and Purchase Framework Agreement; and (iii) the Company has implemented internal control measures to ensure the responsible staff comply with the pricing guidelines of the Group (details of which are stated in the section headed “Internal Control” in the “Letter from the Board”), we are of the view that the terms under the Sale and Purchase Framework Agreement and the pricing of the Products and Services are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### 6. Basis of the Proposed Annual Caps

According to the management of the Company, 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.

The relevant annual caps under the 2013 Agreement were as follow:

	<b>From 13 June 2013 to 31 December 2013 (RMB)</b>	<b>From 1 January 2014 to 31 December 2014 (RMB)</b>	<b>From 1 January 2015 to 31 December 2015 (RMB)</b>
Aggregate of the sale and purchase of the Products and provision of Services	87,000,000	167,000,000	222,000,000

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## LETTER FROM HOORAY CAPITAL

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The actual utilized amount of the relevant annual caps in relation to the 2013 Agreement were as follow:

	<b>From 13 June 2013 to 31 December 2013 approximately (RMB)</b>	<b>From 1 January 2014 to 31 December 2014 approximately (RMB)</b>	<b>From 1 January 2015 to 31 December 2015 approximately (RMB)</b>
Sale and purchase of the Products and the provision of Services	1,407,000	4,993,000	2,322,000

In respect of the expected demand of the Products and Services from CECEP and its subsidiaries during the term of the Sale and Purchase Framework Agreement, the Company indicated that it had made reference to, inter alia, the relevant annual caps under the 2013 Agreement against the actual utilized amount under the respective periods.

According to the management of the Company, the Group would only allocate resources and manpower to projects for CECEP and its subsidiaries upon the entering of definitive agreement(s) between both parties. Since no definitive agreement in respect of the unutilized amount of Products and Services under the relevant annual caps was entered between the Group and CECEP, no cost was incurred to the Group in this regard.

In addition, we are advised that the management of the Company realized that the state policies and guidances have always been very supportive in promoting the use of renewable and alternative energy in the PRC. The setting of the proposed annual caps of RMB80,000,000 for the Supply Transactions for each of the three calendar years ended 31 December 2018, which is approximately 29.81% of the audited revenue of the Group of approximately HK\$319,354,000 (based on the conversion rate of RMB1 to HK\$1.19, where each of the proposed annual caps for the Supply Transactions is equal to approximately HK\$95.2 million), have taken into the account of the actual utilized amount under the relevant caps of the 2013 Agreement and are adjusted accordingly, represents the potential sales target of the Group generated from CECEP and its subsidiaries.

We have discussed with the management of the Company in relation to the aforesaid the Company's reasons and conduct an independent research based on the information published by different governmental authorities of the PRC in this regard. In our findings, we noticed that:

- I. Under The National Energy Technology "Twelfth Five Year Plan"\* (國家能源科技「十二五」規劃) (2011-2015) published by the National Energy Administration (國家能源局) in 2011 (which can be found at [www.nea.gov.cn/131398352\\_11n.pdf](http://www.nea.gov.cn/131398352_11n.pdf)), accelerating the development of renewable and alternative energy and promoting the distributed renewable energy (分布式可再生能源) are two of the objectives in promoting the development and utilization of the renewable and alternative energy; and



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## LETTER FROM HOORAY CAPITAL

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- II. In the letter of guidance dated October 2013 jointly issued by the National Energy Administration, the Ministry of Finance, the Ministry of Land Resources and the Ministry of Housing and Urban-Rural Development of the PRC (國家能源局、財政部、國土資源部、住房和城鄉建設部關於促進地熱能開發利用的指導意見), Guonengxinneng [2013] No. 48 (國能新能[2013]48號) (which can be found at [http://zfxgk.nea.gov.cn/auto87/201302/t20130207\\_1581.htm](http://zfxgk.nea.gov.cn/auto87/201302/t20130207_1581.htm)) in relation to the promotion of the development of geothermal energy, addressing all their respective subordinate authorities to, inter alia, (a) carry out extensive exploration of geothermal energy; (b) insert extensive effort on the research and development of technological break-through in geothermal energy; (c) proactively promote the utilization of shallow, middle and deep ground geothermal energy; (d) actively explore electricity generation through deep-ground geothermal energy; and (e) improve the geothermal servicing system.

Based on the above, we concur with the management of the Company that the Central Government of the PRC has been supportive in promoting the use of renewable and alternative energy in the PRC in recent years.

Having considered that (a) the Supply Transactions is in the ordinary course of business of the Group; (b) the terms under the Sale and Purchase Framework Agreement are fair and reasonable and on terms not less favourable to the Group; (c) there will be no cost incurred to the Group for any unutilized amount under the proposed annual caps for the Supply Transactions; and (d) our aforementioned findings, we concur with the view of the Company that the setting of the proposed annual caps for the Supply Transactions to RMB80,000,000 for each of the three calendar years ending 31 December 2018 is justifiable, the reduction of the annual caps for the Supply Transactions is appropriate fair and reasonable so far as the Independent Shareholders are concerned and do not represent any disadvantage to the Company and the Shareholders as a whole.

### **7. Internal Control**

We are advised by the Company that the internal control procedures has been modified and improved by the Company for the Supply Transactions, of which is principally based on the internal control procedures adopted for the 2013 Agreement to ensure the Continuing Connected Transaction will be conducted in accordance with the terms under the Sale and Purchase Framework Agreement and on normal commercial terms and in the interests of the Company and the Shareholders as a whole and in compliance with the GEM Listing Rules. For details, please refer to the section headed “Internal Control” in the “Letter from the Board”.

Other than reviewing and discussing with the management of the Company on the internal control, we have also compared the terms of the contracts entered with CECEP against the terms of contracts entered with independent third parties during the term of the 2013 Agreement which we are of opinion that the terms therein are both similar in nature and on normal commercial terms. The terms of the contracts entered into between the Company and CECEP are not less favourable to the Group and the average gross margins for the Products and Services to CECEP and its subsidiaries are in line with the average gross profit margin of the Company for comparable transactions. As such, we believe that the modified and improved internal control procedures are appropriate to safeguard the interest of the Company and Shareholders as a whole.

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## LETTER FROM HOORAY CAPITAL

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### 8. Reasons for and benefits of entering into the Sale and Purchase Framework Agreement

As stated in the “Letter from the Board”, the Sale and Purchase Framework Agreement entered into between the Company and CECEP is in the ordinary and usual course of business of the Group. The Directors have considered the following aspects:

- (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;
- (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;
- (d) the terms of Products and Services offered by the Group to CECEP and its subsidiaries are similar to terms offered to independent third parties and are not less favorable to the Group, which is in the interest of the Company and the Shareholders as a whole;
- (e) the pricing policy for Products and Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, same of which will be consistently applied for the Supply Transactions under the Sale and Purchase Framework Agreement, which is fair and reasonable;
- (f) the reduction of the proposed annual caps for the sale and purchase of the Products and provision of Services has taken into account of the unutilized caps under the 2013 Agreement, which is fair and reasonable; and
- (g) the downward adjustment of the proposed annual caps for the sale and purchase of the Products and provision of Services will not have any cost incurred or material impact or adverse effect to the Group, the setting of the proposed annual caps for the Supply Transactions at the current level is appropriate, fair and reasonable and do not represent any disadvantage to the Company and the Shareholders as a whole.

In assessing whether the Supply Transactions under the Sale and Purchase Framework Agreement are in the interests of the Company and the Shareholders as a whole, we have discussed with the management of the Company in relation to the aforesaid the Company’s reasons and benefits for entering into the Sale and Purchase Framework Agreement. With better understanding of the Company’s rationale and having taken into account of the followings in assessing the reasonableness and fairness of the Supply Transactions under the Sale and Purchase Framework Agreement:

- A. the Sale and Purchase Framework Agreement is a continuance of the 2013 Agreement, of which the transactions and terms thereunder are principally the same;

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## LETTER FROM HOORAY CAPITAL

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- B. the Company's modified and improved internal control procedures for the Supply Transactions that is principally based on the internal control procedures adopted for the 2013 Agreement, which we reviewed and discussed with the management of the Company, in our opinion, are appropriate to safeguard the interests of the Company and Shareholders as a whole;
- C. the fact that the Company decided to substantially reduce the proposed annual caps for the Supply Transactions as a result from the actual utilized amount against the relevant annual caps under the 2013 Agreement, is fair and reasonable; and
- D. our findings of government's policy and guidance support the Company's view that the Central Government of the PRC has been supportive in promoting the use of renewable and alternative energy in the PRC in recent years.

We concur with the view of the Company that the entering of the Sale and Purchase Framework Agreement is in the ordinary and usual course of business of the Group, and the terms under the Sale and Purchase Framework Agreement are normal commercial terms. As a result, we consider that the Continuing Connected Transaction and the proposed annual caps in respect of the Supply Transactions for the period from the Effective Date to 31 December 2018 are fair and reasonable so far as the Independent Board Committee and Independent Shareholder are concerned, and are in the interests of the Company and the Shareholders as a whole.

### GEM LISTING RULES IMPLICATIONS

Apart from reporting, announcement and Independent Shareholders' approval requirements as required pursuant to the GEM Listing Rules, the Supply Transactions under the Sale and Purchase Framework Agreement are subject to the annual review requirements under the Rules 20.53 to 20.57 of the GEM Listing Rules, in particular:

- (i) the independent non-executive Directors must review the Continuing Connected Transaction under the Sale and Purchase Framework Agreement every year and confirm in the annual report whether the Continuing Connected Transaction have been entered into:
  - (1) in the ordinary and usual course of business of the Group;
  - (2) on normal commercial terms or better; and
  - (3) according to the Sale and Purchase Framework Agreement governing the relevant transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (ii) the Company must engage its auditors to report on the Continuing Connected Transaction every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transaction:
  - (1) have not been approved by the Board;

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## LETTER FROM HOORAY CAPITAL

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- (2) were not entered into, in all material respects, in accordance with the Sale and Purchase Framework Agreement governing the transactions; and
  - (3) have exceeded the proposed annual caps in relation to the Supply Transactions.
- (iii) the Company will comply with all other relevant requirements under the GEM Listing Rules.

### RECOMMENDATION

Based on the aforementioned factors and having considered:

- (i) the Sale and Purchase Framework Agreement is a continuance of the 2013 Agreement, of which the transactions and terms thereunder are principally the same, on standard commercial terms and in arm's length basis, and in the ordinary and usual course of business of the Group;
- (ii) the pricing policy for Products and Services that has been practicing by the Group is made referenced to the official guidelines and market comparable rates, same of which will be consistently applied for the Supply Transactions under the Sale and Purchase Framework Agreement. The pricing as well as the terms in respect of the Products and Services offered by the Group to CECEP and its subsidiaries are similar to those offered to independent third parties and are not less favorable to the Group;
- (iii) the fact that the Company decided to substantially reduce the proposed annual caps for the Supply Transactions as a result from the actual utilized amount against the relevant annual caps under the 2013 Agreement, is fair and reasonable;
- (iv) there is no cost incurred to the Group for unutilized amount under the proposed annual caps;
- (v) our findings of government's policy and guidance support the Company's view that the Central Government of the PRC has been supportive in promoting the use of renewable and alternative energy in the PRC in recent years; and
- (vi) internal control measures to be adopted by the Group as stated in the section headed "Internal Control" in the "Letter from the Board".

We are of the view that the terms of the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the proposed annual caps for the period from the Effective Date to 31 December 2018 are fair and reasonable, and the entering into such agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also

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## LETTER FROM HOORAY CAPITAL

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recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Framework Agreement, the Continuing Connected Transaction and the proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

Yours faithfully,  
For and on behalf of  
**Hooray Capital Limited**  
**Simon Ng**  
*Director*

*Mr. Simon Ng is a licensed person under the SFO to engage in, inter alia, Type 6 (advising on corporate finance) regulated activity and has over 17 years of experience in investment banking and corporate finance.*

Set out below are the detailed proposed amendments to the Articles:

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
2. (1)	“associates”  the meaning attributed to it in the rules of the Designated Stock Exchange.	<del>“associates”</del>  <del>the meaning attributed to it in the rules of the Designated Stock Exchange.</del>
2. (1)	Nil	<u>“Chairman”</u>  <u>chairman of the Board or if there are two Joint Chairmen of the Board, each or any of them, as the context shall require.</u>
2. (1)	Nil	<u>“Close Associate(s)”</u>  <u>has the meaning as defined in the rules of the Designated Stock Exchange.</u>
2. (1)	Nil	<u>“Companies Ordinance”</u>  <u>the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended from time to time.</u>
2. (1)	Nil	<u>“Deputy Chairman”</u>  <u>deputy chairman of the Board or if there are two Deputy Joint Chairmen of the Board, each or any of them, as the context shall require.</u>
2. (1)	Nil	<u>“Deputy Joint Chairmen”</u>  <u>has the meaning ascribed to it in Article 125(4).</u>
2. (1)	“dollars” and “\$”  the legal currency of Hong Kong.	<u>“Hong Kong dollar(s)” and “HK\$”</u>  <u>Hong Kong dollar(s), the legal—lawful</u> <u>currency of Hong Kong.</u>
2. (1)	Nil	<u>“holding company”</u>  <u>has the meaning ascribed to it under Section 13 of the Companies Ordinance.</u>

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
2. (1)	Nil	<p><u>“Joint Chairmen”</u></p> <p><u>has the meaning ascribed to it in Article 125(3).</u></p>
2. (1)	<p>“Subsidiary and Holding Company”</p> <p>has the meanings attributed to them in the rules of the Designated Stock Exchange.</p>	<p><del>“Subsidiary” and Holding Company”</del></p> <p>has the meanings <u>attributed to them</u> ascribed to it under Section 15 of the Companies Ordinance. <del>in the rules of the Designated Stock Exchange.</del></p>
2. (1)	Nil	<p><u>“US dollar(s)” and “US\$”</u></p> <p><u>United States dollar(s), the lawful currency of the United States of America.</u></p>
3. (1)	The share capital of the Company at the date on which these Articles come into effect shall be divided into shares of a par value of \$0.01 each.	The share capital of the Company at the date on which these Articles come into effect shall be divided into shares of a par value of <u>US\$0.01</u> each.
8. (1)	Subject to the provisions of the Law and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Board may determine.	Subject to the provisions of the Law and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares <u>including preference shares</u> , any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Board may determine.

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Article No.	Original text	Amended text
8. (3)	Nil	<u>(3) Subject to Article 74(2), no power shall be exercised by the Company to freeze or otherwise impair any of the rights attaching to any share by reason only that the person who is interested directly or indirectly therein has failed to disclose his interests to the Company.</u>
44.	The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours during business hours by Members without charge or by any other person, upon a maximum payment of \$2.50 or such lesser sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.	The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours during business hours by Members without charge or by any other person, upon a maximum payment of <u>HK\$2.50</u> or such lesser sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in <u>any an appointed newspaper or any other newspapers</u> in accordance with the requirements of <u>any the</u> Designated Stock Exchange or by any <u>electronic other</u> means in such manner <u>as may be in accordance with the rules of accepted by</u> the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.
48. (5)	Nil	<u>(5) Subject to other provisions of these Articles, fully paid shares of the Company shall be free from any restriction on the right of transfer (except when permitted by the Designated Stock Exchange) and shall also be free from all lien.</u>



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<b>Article No.</b>	<b>Original text</b>	<b>Amended text</b>
55. (2)	<p>The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:</p> <p>(a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;</p> <p>(b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and</p> <p>(c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.</p>	<p>The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:</p> <p>(a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;</p> <p>(b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and</p> <p>(c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused <u>an</u> advertisement <u>published</u> in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.</p>

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	For the purpose of the foregoing, the “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.	For the purpose of the foregoing, the “relevant period” means the period commencing twelve <u>(12)</u> years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.
59. (1)	<p>An annual general meeting shall be called by Notice of not less than twenty-one (21) clear days’ and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by Notice of not less than twenty one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by Notice of not less than fourteen (14) clear days’ and not less than ten (10) clear business days but if permitted by the rules of the Designated Stock Exchange, a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:</p> <p>(a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and</p> <p>(b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.</p>	<p>An annual general meeting shall be called by Notice of not less than twenty-one (21) clear days<sup>2</sup> and not less than twenty (20) clear business days <del>and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by Notice of not less than twenty one (21) clear days and not less than ten (10) clear business days.</del> All other <del>extraordinary</del> general meetings <u>(including an extraordinary general meeting) must</u><del>may</del> be called by Notice of not less than fourteen (14) clear days<sup>2</sup> and not less than ten (10) clear business days but if permitted by the rules of the Designated Stock Exchange, a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:</p> <p>(a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and</p> <p>(b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.</p>

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Article No.	Original text	Amended text
61. (2)	No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. Two (2) Members entitled to vote and present in person or by proxy or (in the case of a Member being a corporation) by its duly authorised representative shall form a quorum for all purposes.	No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. Two (2) Members entitled to vote and present in person or by proxy or (in the case of a Member being a corporation) by its duly authorised representative ( <u>and where a corporation is so represented, it shall be treated as being present at such general meeting in person</u> ) shall form a quorum for all purposes.
63.	The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and entitled to vote shall elect one of their number to be chairman.	<p><del>The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and entitled to vote shall elect one of their number to be chairman.</del></p> <p>(1) <u>The Chairman of the Board shall preside as chairman at every general meeting. If the Company has Joint Chairmen, the Directors shall at or prior to such general meeting elect one of the Joint Chairmen to act as the chairman of such general meeting.</u></p>

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Article No.	Original text	Amended text
		<p>(2) <u>If for any reason the Chairman or Joint Chairman elected to preside as chairman of a general meeting is not present within fifteen (15) minutes after the time appointed for holding the same, the remaining Joint Chairman present at the general meeting shall be the chairman of the general meeting or if the remaining Joint Chairman is not present or decline to act, the Deputy Chairman shall be the chairman of the meeting.</u></p> <p>(3) <u>If there is more than one Deputy Chairman and both Deputy Joint Chairmen are present at the general meeting, the Directors present at a general meeting shall choose one of the Deputy Joint Chairman to act as the chairman of such general meeting. If only one Deputy Joint Chairman is present then such Deputy Joint Chairman shall be chairman of the general meeting unless he/she declines to act.</u></p> <p>(4) <u>If the Directors for any reason are unable to resolve on which Deputy Joint Chairman shall act as chairman of such general meeting, the Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and entitled to vote shall choose one of the Deputy Joint Chairman present to act as chairman of such general meeting.</u></p>

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Article No.	Original text	Amended text
		<p>(5) <u>If following the procedures set out in sub-paragraphs (1) to (4) above, there is still no Chairman or Deputy Chairman to chair the general meeting for any reason, the Directors present shall choose one of their number to be the chairman of such general meeting.</u></p> <p>(6) <u>If no Director is present or if all the Directors present decline to take the chair or if the chairman chosen shall retire from the chair, then the Members present in person or (in the case of a Member being a corporation) by its duly authorised representative or by proxy and entitled to vote shall choose one of their number to be the chairman of such general meeting.</u></p>
64.	The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place as the meeting shall determine, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.	The chairman <u>of the meeting</u> may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place as the meeting shall determine, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.

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Article No.	Original text	Amended text
66.	<p>Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every Member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. For purposes of this Article, procedural and administrative matters are those that (i) are not on the agenda of the general meeting or in any supplementary circular that may be issued by the Company to its Members; and (ii) relate to the chairman’s duties to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all Members a reasonable opportunity to express their views. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded:</p>	<p>Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every Member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. For purposes of this Article, procedural and administrative matters are those that (i) <del>are</del> not on the agenda of the general meeting or in any supplementary circular that may be issued by the Company to its Members; and (ii) relate to <del>the chairman’s duties</del> <u>of the chairman of the meeting</u> to maintain the orderly conduct of the meeting and/or allow the business of the meeting to be properly and effectively dealt with, whilst allowing all Members a reasonable opportunity to express their views. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded:</p>

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	<p>(a) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or</p> <p>(b) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or</p> <p>(c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.</p> <p>A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.</p>	<p>(a) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or</p> <p>(b) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or</p> <p>(c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.</p> <p>A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.</p>

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67.	Where a resolution is voted on by a show of hands, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.	Where a resolution is voted on by a show of hands, a declaration by the chairman <u>of the meeting</u> that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.
75.	<p>If:</p> <p>(a) any objection shall be raised to the qualification of any voter; or</p> <p>(b) any votes have been counted which ought not to have been counted or which might have been rejected; or</p> <p>(c) any votes are not counted which ought to have been counted;</p> <p>the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.</p>	<p>If:</p> <p>(a) any objection shall be raised to the qualification of any voter; or</p> <p>(b) any votes have been counted which ought not to have been counted or which might have been rejected; or</p> <p>(c) any votes are not counted which ought to have been counted;</p> <p>the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman <u>of the meeting</u> decides that the same may have affected the decision of the meeting. The decision of the chairman <u>of the meeting</u> on such matters shall be final and conclusive.</p>



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Article No.	Original text	Amended text
88.	<p>The Board may from time to time appoint any one or more of its body to be a managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Article shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.</p>	<p>The Board may from time to time appoint any <del>of one or more of its body</del> <u>them</u> to <u>the office of one or more</u> <del>be a</del> managing director(s), joint managing director(s) or deputy managing director(s) or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Article shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.</p>

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Article No.	Original text	Amended text
101.	<p>(1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:</p> <p>(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;</p> <p>(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;</p>	<p>(1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his <u>Close</u> <del>Associate(s)</del> is materially interested, but this prohibition shall not apply to any of the following matters namely:</p> <p>(i) any contract or arrangement for the giving to such Director or his <u>Close</u> <del>Associate(s)</del> any security or indemnity in respect of money lent by him or any of his <u>Close</u> <del>Associate(s)</del> or obligations incurred or undertaken by him or any of his <u>Close</u> <del>Associate(s)</del> at the request of or for the benefit of the Company or any of its subsidiaries;</p> <p>(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his <u>Close</u> <del>Associate(s)</del> has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;</p>

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	<p>(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;</p> <p>(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or</p> <p>(v) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.</p>	<p>(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his <u>Close</u> <del>Associate</del>(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;</p> <p>(iv) any contract or arrangement in which the Director or his <u>Close</u> <del>Associate</del>(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or</p> <p>(v) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his <u>Close</u> <del>Associate</del>(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his <u>Close</u> <del>Associate</del>(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.</p>

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Article No.	Original text	Amended text
	<p>(2) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.</p>	<p>(2) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director <u>or his Close Associate(s)</u> (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman <u>of the meeting</u>) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director <u>or his Close Associated(s)</u> concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting <u>or his Close Associate(s)</u> such question shall be decided by a resolution of the Board (for which purpose such chairman <u>of the meeting</u> shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such <u>chairman of the meeting or his Close Associate(s)</u> <del>chairman</del> as known to <u>chairman of the meeting</u> <del>such chairman</del> has not been fairly disclosed to the Board.</p>

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
102. (4)	<p>Except as would, if the Company were a company incorporated in Hong Kong, be permitted by Section 157H of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force at the date of adoption of these Articles, and except as permitted under the Law, the Company shall not directly or indirectly:</p> <p>(i) make a loan to a Director or a director of any holding company of the Company or to any of their respective associates (as defined by the rules, where applicable, of the Designated Stock Exchange);</p> <p>(ii) enter into any guarantee or provide any security in connection with a loan made by any person to a Director or such a director; or</p> <p>(iii) if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.</p>	<p><del>Except as would, if the Company were a company incorporated in Hong Kong, be permitted by Section 157H of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force at the date of adoption of these Articles, and except as permitted under the Law, the Company shall not directly or indirectly:</del></p> <p><del>(i) make a loan to a Director or a director of any holding company of the Company or to any of their respective associates (as defined by the rules, where applicable, of the Designated Stock Exchange);</del></p> <p><del>(ii) enter into any guarantee or provide any security in connection with a loan made by any person to a Director or such a director; or</del></p> <p><del>(iii) if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.</del></p> <p><u>The Company shall not make any loan, directly or indirectly, to a Director or his Close Associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.</u></p>

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
	Article 102(4) shall only have effect for so long as the shares of the Company are listed on The Stock Exchange of Hong Kong Limited.	Article 102(4) shall only have effect for so long as the shares of the Company are listed on The Stock Exchange of Hong Kong Limited.
116.	The Board may elect a chairman and one or more deputy chairman of its meetings and determine the period for which they are respectively to hold such office. If no chairman or deputy chairman is elected, or if at any meeting neither the chairman nor any deputy chairman is present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.	<p><del>The Board may elect a chairman and one or more deputy chairman of its meetings and determine the period for which they are respectively to hold such office. If no chairman or deputy chairman is elected, or if at any meeting neither the chairman nor any deputy chairman is present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.</del></p> <p>(1) <u>The Chairman shall preside as chairman of a meeting of the Board. If there are Joint Chairmen and both of them are present at a Board meeting, the Directors present at such meeting shall choose one of the Joint Chairmen to preside as chairman of such meeting of the Board.</u></p> <p>(2) <u>If no such Joint Chairmen is elected or appointed to chair the Board meeting, or if at any meeting neither Joint Chairman is present within five (5) minutes after the time appointed for holding the same and willing to act, the Deputy Chairman shall be the chairman of the meeting.</u></p> <p>(3) <u>If there is more than one Deputy Joint Chairman present at the Board meeting, the Directors present at a meeting of the Board shall choose one of the Deputy Joint Chairmen to preside as chairman of such meeting of the Board.</u></p>

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
		(4) <u>If no such Joint Chairman or Deputy Joint Chairman is elected or appointed to chair the Board meeting, or if at any meeting none of the Joint Chairman and Deputy Joint Chairman is present within five (5) minutes after the time appointed for holding the same and willing to act, the Directors present shall choose one of their number to be the chairman of such meeting.</u>
125.	<p>(1) The officers of the Company shall consist of a chairman, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.</p> <p>(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a chairman and if more than one (1) Director is proposed for this office, the election to such office shall take place in such manner as the Directors may determine.</p> <p>(3) The officers shall receive such remuneration as the Directors may from time to time determine.</p>	<p>(1) <u>The Directors may from time to time elect or appoint up to two of them to the office of Joint Chairman of the Company and determine the period for which each of them is to hold such office. The Directors may also from time to time elect or appoint up to two of them to the office of Deputy Joint Chairman of the Company and determine the period for which each of them is to hold such office.</u></p> <p>(4) <u>The Officers of the Company shall consist of up to two Joint Chairmen (if any such Joint Chairmen is/are elected or appointed) and up to two Deputy Joint Chairmen (if any such Deputy Joint Chairmen is/are elected or appointed) a chairman, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.</u></p>

PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
		<p>(<del>3</del>) The Directors <del>shall</del><u>may</u>, as soon as may be after each appointment or election of Directors, elect amongst the Directors <u>up to two (2) joint chairmen (the “<b>Joint Chairmen</b>”)</u><del>a chairman</del> and if more than <del>(1) Director</del> <u>is two (2) Directors are</u> proposed for this office, the election to such office shall take place in such manner as the Directors may determine.</p> <p>(4) <u>The Directors may, as soon as may be after each appointment or election of Directors, elect amongst the Directors (other than the Joint Chairman or any of them) up to two (2) deputy joint chairmen (the “<b>Deputy Joint Chairmen</b>”)</u> and if more than two (2) <u>Directors are proposed for this office, the election to such office shall take place in such manner as the Directors may determine.</u></p> <p>(<del>5</del>) The officers shall receive such remuneration as the Directors may from time to time determine.</p>



PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY		
Article No.	Original text	Amended text
150.	<p>A printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, or a summary financial report in the form and containing the information required by applicable laws and regulations shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.</p>	<p>Subject to Article 151, <del>A</del>a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, or a summary financial report in the form and containing the information required by applicable laws and regulations shall be <u>delivered or sent by post together with the notice of annual general meeting to the registered address of every Member and every other <del>each</del> person entitled to receive notices of general meetings of the Company under the provisions of these Articles <del>thereto</del></u> at least twenty-one (21) days before the date of the general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.</p>

**(I) RESPONSIBILITY STATEMENT**

This circular, for which the Directors 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 circular 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 circular misleading.

**(II) DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY**

As at the Latest Practicable Date, the interests and short positions held by the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

**(a) Long Positions and Short Positions in Shares and Equity Derivatives**

Name of Director/chief executive of the Company	Capacity	Number of issued ordinary Shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in the Shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares					
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	41,636,000 (L)		1.45%	17,000,000 (L)	68,710,000 (L)	2.39%
	Interest of spouse	10,074,000 (L)		0.35%	-		
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)		17.67%	11,600,000 (L)	520,621,000 (L)	18.10%
	Beneficial owner	508,300,000 (S)		17.67%	-	508,300,000 (S)	17.67%
	Interest of spouse	702,000 (L)		0.02%	-		
Mr. Jia Wenzeng (Note 3)	Beneficial owner	-		-	1,500,000 (L)	1,500,000 (L)	0.05%
Mr. Wang Manquan (Note 4)	Beneficial owner	512,000 (L)		0.02%	5,000,000 (L)	5,512,000 (L)	0.19%

(L): Long position, (S): Short position

*Notes:*

1. Ms. Chan Wai Kay Katherine (“**Ms. Chan**”) is interested in 41,636,000 Shares and 17,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond (“**Mr. Chow**”), spouse of Ms. Chan, holds 10,074,000 Shares. Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
2. Mr. Xu Shengheng (“**Mr. Xu**”) is interested in 508,319,000 Shares and 11,600,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.
3. Mr. Jia Wenzeng is interested in 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
4. Mr. Wang Manquan is interested in 512,000 Shares and 5,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

**(b) Long Positions under Equity Derivatives***The Share Option Plan*

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (the “**Share Option Plan**”) for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at Latest Practicable Date, the following Directors and chief executive of the Company were interested in the following options under the Share Option Plan:

Name of Director/ chief executive of the Company	Date of grant	Exercise period	Exercise price per Share HK\$	Number of share options outstanding as at Latest Practicable Date
Ms. Chan Wai Kay Katherine	9 September 2010	9 September 2010 to 8 September 2020	0.426	17,000,000
Mr. Xu Shengheng	9 September 2010	9 September 2010 to 8 September 2020	0.426	11,600,000
Mr. Jia Wenzeng	9 September 2010	9 September 2010 to 8 September 2020	0.426	1,500,000

Name of Director/ chief executive of the Company	Date of grant	Exercise period	Exercise price per Share HK\$	Number of share options outstanding as at Latest Practicable Date
Mr. Wang Manquan	9 September 2010	9 September 2011 to 8 September 2020	0.426	1,666,667
		9 September 2012 to 8 September 2020	0.426	1,666,667
		9 September 2013 to 8 September 2020	0.426	1,666,666

Save as disclosed above, as at Latest Practicable Date, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

### **(III) DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP**

A lease agreement dated 14 May 2016 entered into between CHYY (USA), LLC., a wholly owned subsidiary of the Company, as tenant, and Mr. Xu Shengheng, an executive Director, as landlord, for a lease of office space in 1050 North 252nd Street, Waterloo, Douglas County, Nebraska, 68130, USA with a period of 3 years at a monthly rental rate of US\$500.

Save for aforementioned, as at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

**(IV) DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation), between any of the Directors and any member of the Group.

**(V) COMPETITION AND CONFLICT OF INTERESTS**

As at the Latest Practicable Date, none of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

**(VI) INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS' INTEREST**

So far as is known to the Directors, as at Latest Practicable Date, persons (other than directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

**Long Positions and Short Positions in Shares and Equity Derivatives**

Name	Capacity	Number of issued ordinary Shares of US\$0.01 each in the Company held and the capacity		Approximate percentage of interests in the Shares	Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares					
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	850,000,000 (L)		29.55%	-	850,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group Company (Note 1)	Interest of controlled corporation	850,000,000 (L)		29.55%	-	850,000,000 (L)	29.55%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)		0.02%	-		
	Interest of spouse	508,319,000 (L)		17.67%	11,600,000 (L)	520,621,000 (L)	18.10%
	Interest of spouse	508,300,000 (S)		17.67%	-	508,300,000 (S)	17.67%

(L): Long position, (S): Short position

*Notes:*

1. China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of CECEP, therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.
2. Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu Shengheng (“**Mr. Xu**”), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 11,600,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 11,600,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at Latest Practicable Date, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

**(VII) MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Company were made up.

**(VIII) QUALIFICATIONS AND CONSENT OF EXPERT**

The following is the qualification of the expert which has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Hooray Capital Limited	a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Hooray Capital was not interested in any Shares or shares in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Hooray Capital did not have any direct or indirect interest in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Hooray Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

The letter and recommendation given by Hooray Capital as of the date of this circular is for the incorporation herein.

**(IX) GENERAL**

- (a) the principal place of business of CECEP is at Jieneng Mansion, No. 42 Xizhimen North Street, Haidian District, Beijing, PRC (中國北京市海澱區西直門北大街42號節能大廈);
- (b) the Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and
- (c) in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**(X) DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units 3709-10, 37/F, The Centre, 99 Queen's Road Central, Central, Hong Kong during normal business hours up to and including the date of the EGM:

- (a) the Articles;
- (b) the Sale and Purchase Framework Agreement and the 2013 Agreement;
- (c) the letter from the Board, the text of which is set out in this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from Hooray Capital, the text of which is set out in this circular; and
- (f) the consent letter of Hooray Capital as referred to in the section headed "Qualifications and Consent of Expert" in this Appendix II.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of China Ground Source Energy Industry Group Limited (the “**Company**”) will be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 26 September 2016 at 11:00 a.m for the following purposes:

### **ORDINARY RESOLUTION**

1. To consider and, if thought fit, pass the following resolution (with or without amendment) as ordinary resolution:

**“THAT:**

- (a) the agreement (the “**Sale and Purchase Framework Agreement**”) dated 4 May 2016 entered into between the Company (as vendor) and China Energy Conservation and Environmental Protection Group Company\* 中國節能環保集團公司 (“**CECEP**”) (as purchaser) pursuant to which the Company and its subsidiaries have conditionally agreed to sell and provide CECEP and its subsidiaries the following services:
  - (i) the products using “HYY single-well circulation for heat exchange geothermal energy collection technology”, an original innovation of the Company as focus, and using shallow ground source energy as alternative energy for heating/cooling, including but not limited to, “HYY ground source energy heat pump environmental system”, “HYY ground energy heating device” and “HYY multi-source distributed energy stations (the “**Products**”); and
  - (ii) the 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 (the “**Services**”)

for the term commencing from the date of the approval of the shareholders of the Company (excluding CECEP (HK) and its associates) of the Sale and Purchase Framework Agreement or 16 May 2016, whichever is later (the “**Effective Date**”), to 31 December 2018, a copy of which is produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose, and the transactions thereunder be and are hereby confirmed, approved and ratified, and any one director of the Company be and is hereby authorised to take such actions and execute such documents (to be countersigned by another director of the Company if the common seal of the Company is required to be affixed thereto) as he may consider necessary or desirable to carry out and complete the transactions thereunder; and



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) the proposed aggregate annual caps for the supply of the Products and provision of Services by the Company and its subsidiaries under the Sale and Purchase Framework Agreement for each of the three periods, (1) from the Effective Date to 31 December 2016; (2) from 1 January 2017 to 31 December 2017; and (3) from 1 January 2018 to 31 December 2018, is RMB80,000,000, be and are hereby approved.”

### SPECIAL RESOLUTION

2. To consider and, if thought fit, pass the following resolution (with or without amendments) as special resolution:

**“THAT:**

- (a) the Articles of Association of the Company (the “**Articles of Association**”) be amended in the manner as set out in Appendix I to the circular of the Company dated 30 August 2016 (the “**Circular**”); and
- (b) an amended and restated Articles of Association which consolidates all of the proposed amendments referred to in Appendix I to the Circular and all previous amendments approved pursuant to resolutions passed by the shareholders of the Company at prior general meetings, a copy of which is produced to the meeting and marked “B” and initialed by the chairman of this meeting for the purpose of identification, be and is hereby adopted as the amended and restated Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association with immediate effect.”

Yours faithfully,

For and on behalf of

**China Ground Source Energy Industry Group Limited**

**Xu Shengheng**

*Joint Chairman & Executive Director*

Hong Kong, 30 August 2016

\* *For identification purposes only*

*As at the date of this notice, 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.*

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM and in such event, the form of proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from Friday, 23 September 2016 to Monday, 26 September 2016, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 22 September 2016.