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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)

**(I) PROPOSED RIGHTS ISSUE
AT THE RIGHTS ISSUE PRICE OF HK\$0.10 PER RIGHTS SHARE
ON THE BASIS OF TWO (2) RIGHTS SHARES FOR EVERY
FIVE (5) EXISTING SHARES HELD ON THE RECORD DATE;
AND
(II) APPLICATION FOR WHITEWASH WAIVER**

Financial adviser to the Company



Guotai Junan Capital Limited

Underwriters to the Rights Issue



Guotai Junan Securities (Hong Kong) Limited

**China Energy Conservation and
Environmental Protection (Hong Kong)
Investment Company Limited**

Mr. Xu Shengheng

Ms. Chan Wai Kay Katherine

PROPOSED RIGHTS ISSUE

On 12 April 2017 (after trading hours), the Underwriters and the Company entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The Company proposed to raise not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million, before expenses, by way of issue of not less than 1,150,550,046

and not more than 1,323,758,046 Rights Shares pursuant to the Rights Issue on the basis of two (2) Rights Shares for every five (5) existing Shares in issue on the Record Date at the Rights Issue Price of HK\$0.10 per Rights Share.

To qualify for the Rights Issue, a Shareholder or an investor must be: (i) registered as a member of the Company on the register of members of the Company in Hong Kong on the Record Date; and (ii) not be an Excluded Shareholder.

Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to subscribe for, or procure the subscription for, all the Underwritten Shares if any of the Underwritten Shares has not been taken up by the Latest Time for Acceptance.

Assuming there is no change in the issued share capital of the Company from the date of this announcement up to the Record Date, the 1,150,550,046 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represent:

- (i) 40.0% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of the 1,150,550,046 Rights Shares.

Assuming there is no change in the issued share capital of the Company from the date of this announcement up to the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attached to all outstanding Share Options on or before the Record Date, the 1,323,758,046 Rights Shares proposed to be allotted and issued pursuant to the Rights Issue represent:

- (i) approximately 46.0% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of new Shares as a result of the exercise of all the outstanding options and the 1,323,758,046 Rights Shares.

The Rights Shares will have an aggregate nominal value of not less than US\$11,505,500.46 and not more than US\$13,237,580.46.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The estimated net proceeds from the Rights Issue (after deducting all estimated expenses) will be not less than approximately HK\$112.2 million and not more than approximately HK\$129.5 million which will be used for the general working capital of the Group. This covers two major aspects: (i) approximately 40%-50% will be used on the payment of operational expenses, such

as payment of salaries and rents, general operational expenses, etc, and (ii) approximately 50%-60% will be used on project-based related expenses, including but not limited to purchasing equipment for the project implementation and construction.

Having considered other fund raising alternatives for the Group, including issuance of debt securities and Share placements and taking into account the benefit and costs of each alternative, the Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

TAKEOVERS CODE IMPLICATIONS AND APPLICATION FOR WHITEWASH WAIVER

As at the date of this announcement, CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the existing issued share capital of the Company.

Pursuant to the Underwriting Agreement, CECEP (Hong Kong), as one of the Underwriters, has conditionally agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, CECEP (Hong Kong) will be required to take up the Underwritten Shares in accordance with the agreed underwriting commitment pursuant to the Underwriting Agreement and the shareholding of CECEP (Hong Kong) upon completion of the Rights Issue would amount to approximately 35.37% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Under such circumstances, CECEP (Hong Kong) would be required to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company (other than those already owned or agreed to be acquired by CECEP (Hong Kong)) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

CECEP (Hong Kong) will make an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

The grant and approval of the Whitewash Waiver is condition precedent to the Underwriting Agreement. In the case where the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, CECEP (Hong Kong) reserves its right as to whether

or not to waive such condition. If CECEP (Hong Kong) waives such condition, it will comply with the provisions of the Takeovers Code to make a general offer under Rule 26.1 of the Takeovers Code conditional upon there being an obligation on CECEP (Hong Kong) to make a general offer under Rule 26.1 of the Takeovers Code upon completion of the Rights Issue.

GEM LISTING RULES IMPLICATIONS

As at the date of this announcement, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the existing issued share capital of the Company; (ii) Mr. Xu is an executive Director and is interested in an aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan is an executive Director and is interested in aggregate of 51,710,000 Shares (representing approximately 1.80% of the existing issued share capital of the Company). Accordingly, each of CECEP (Hong Kong), Mr. Xu and Ms. Chan is a connected person of the Company and the transactions contemplated under the Underwriting Agreement constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.90(2) of the GEM Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 10.31(1) of the GEM Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Since the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not required to be conditional on approval by the Shareholders under Rule 10.29 of the GEM Listing Rules.

GENERAL

Under the Takeovers Code, the Whitewash Waiver would be conditional on, among other matters, approval by the Independent Shareholders at the EGM. The resolution proposed to be voted at the EGM will be conducted by way of poll.

Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, as each of CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse is interested in the Whitewash Waiver, they are required to abstain from voting on the resolution to be proposed at the EGM in relation to the Whitewash Waiver. Save for CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse, no Shareholder is involved in or interested in the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM.

The Independent Board Committee has been established to advise and give recommendation to the Independent Shareholders on the terms of the Rights Issue, the Underwriting agreement and the Whitewash Waiver. An independent financial adviser will be appointed to advise the Independent Board Committee thereon. An announcement will be made by the Company when the independent financial adviser is appointed.

Pursuant to Rule 8.2 of the Takeovers Code, a circular containing, among other matters, further details of (i) the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Whitewash Waiver; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver; and (iv) a notice of the EGM, shall be despatched within 21 days of the date of this announcement, or such later date as the Executive may approve.

Upon the approval by the Independent Shareholders of the Whitewash Waiver at the EGM having been obtained and the granting of the Whitewash Waiver by the Executive or CECEP (Hong Kong) waived the condition of the grant and approval of the Whitewash Waiver, the Prospectus or Prospectus Documents, as appropriate, containing further information on the Rights Issue will be dispatched to Shareholders as soon as practicable.

WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

The Rights Issue is conditional upon, among others, the Underwriting Agreement becoming unconditional and the Underwriters not terminating the Underwriting Agreement in accordance with its terms. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors are advised to exercise due caution when dealing with the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate its obligations on the occurrence of certain events including force majeure. Please refer to the section headed “The Underwriting Agreement” in this announcement below for further details.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Tuesday, 23 May 2017. The Rights Shares will be dealt with in their nil-paid form from Tuesday, 6 June 2017 to Tuesday, 13 June 2017 (both days inclusive). Any Shareholders or other persons dealing in the Shares or in the Rights Shares in their nil-paid form up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be at 4:00 p.m. on Monday, 19 June 2017) will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing the Shares or Rights

Shares in their nil-paid form who are in any doubt about their position are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

The register of members of the Company will be closed from Thursday, 25 May 2017 to Thursday, 1 June 2017 (both days inclusive) to determine the eligibility of the Qualifying Shareholders. No transfer of Shares will be registered during the book closure period. To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company in Hong Kong on the Record Date, which is currently expected to be Thursday, 1 June 2017. In order to be registered as a member of the Company in Hong Kong on the Record Date, any transfer of Shares (together with the relevant title documents) must be lodged with the Hong Kong branch share registrar and transfer office for registration by 4:30 p.m. on Wednesday, 24 May 2017.

POSSIBLE ADJUSTMENT TO THE SHARE OPTIONS

As a result of the Rights Issue, it is expected that the exercise prices, and/or the number of Shares, of the outstanding Share Options will be adjusted in accordance with the terms and conditions of the Share Option Scheme. The Company will engage the Company's auditors to review and determine the relevant adjustments and make further announcements on the appropriate adjustments and the date they are expected to take effect in due course.

The Company will apply to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid form.

PROPOSED RIGHTS ISSUE

The Company proposed to raise not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million, before expenses, by way of issue of not less than 1,150,550,046 and not more than 1,323,758,046 Rights Shares pursuant to the Rights Issue on the basis of two (2) Rights Shares for every five (5) existing Shares in issue on the Record Date at the Rights Issue Price of HK\$0.10 per Rights Share. Particulars of the Rights Issue are as follows.

TERMS OF THE RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue: : two (2) Rights Shares for every five (5) existing Shares held on the Record Date by the Qualifying Shareholders

Number of Shares in issue as of : 2,876,375,117 Shares
the date of this announcement:

Number of Rights Shares:	:	1,150,550,046 Rights Shares, representing 40.0% of the existing issued share capital of the Company as at the date of this announcement and approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of the 1,150,550,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the date of this announcement up to the Record Date)
		1,323,758,046 Rights Shares, representing approximately 46.0% of the existing issued share capital of the Company as at the date of this announcement and approximately 28.6% of the then issued share capital of the Company as enlarged by the allotment and issue of new Shares as a result of the exercise of all the outstanding options and the 1,323,758,046 Rights Shares (assuming there is no change in the issued share capital of the Company from the date of this announcement up to the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attached to all outstanding Share Options on or before the Record Date)
Aggregate nominal value of the Rights Shares		not less than US\$11,505,500.46 and not more than US\$13,237,580.46
Rights Issue Price:	:	HK\$0.10 per Rights Share
Number of Shares in issue immediately as enlarged following the completion of the Rights Issue	:	Not less than 4,026,925,163 Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 4,633,153,163 Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date)
Underwriters	:	(i) CECEP (Hong Kong); (ii) Mr. Xu; (ii) GTJA Securities; and (iv) Ms. Chan.

Number of Underwritten Shares to be underwritten by the Underwriters	:	Not less than 586,257,646 Rights Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 730,425,646 Rights Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date)
Amount to be raised before expenses	:	Not less than approximately HK\$115.1 million and not more than approximately HK\$132.4 million before expenses

As at the date of this announcement, there are outstanding Share Options pursuant to the Share Option Scheme, to subscribe for an aggregate of 433,020,000 new Shares. Assuming full exercise of the subscription rights attaching to the outstanding Share Options on or before the Record Date, an additional 173,208,000 Rights Shares will be issued. Save as disclosed, there are no other outstanding options, warrants, convertible notes or other rights to subscribe for Shares as at the date of this announcement.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. To the extent reasonably practicable, the Company will send copies of the Prospectus to each of the Excluded Shareholders for their information only. Please take special note that the Company will send the provisional allotment letter and the form of application for excess Rights Shares to the Qualifying Shareholders only.

The register of members of the Company will be closed from Thursday, 25 May 2017 to Thursday, 1 June 2017 (both days inclusive) to determine the eligibility of the Qualifying Shareholders. No transfer of Shares will be registered during the book closure period.

To qualify for the Rights Issue, a Shareholder or an investor must be: (i) registered as a member of the Company on the Record Date; and (ii) not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, Qualifying Shareholders must lodge any transfer of Shares (with the relevant title documents) for registration with the Hong Kong branch share registrar and transfer office by 4:30 p.m. on Wednesday, 24 May 2017.

The last day for dealing in the Shares on a cum-rights basis will be on Monday, 22 May 2017. The Shares will be dealt with on an ex-rights basis from Tuesday, 23 May 2017.

The Hong Kong branch share registrar and transfer office of the Company is:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

The latest time for payment for and acceptance of the Rights Shares is expected to be at 4:00 p.m. on Friday, 16 June 2017.

Qualifying Shareholders who take up their pro rata entitlement under the Rights Issue in full will not suffer any dilution to their interests in the Company. If a Qualifying Shareholder does not take up his, her or its entitlement in full under the Rights Issue, his, her or its proportionate shareholding in the Company will be diluted.

Rights of the Excluded Shareholders

The Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 17.41(1) of the GEM Listing Rules and make enquiries regarding the feasibility of extending the Rights Issue to the Shareholders whose names appear on the register of members of the Company in Hong Kong on the Record Date but whose addresses are in places outside of Hong Kong, and if, having made such enquiry, the Directors consider that it is necessary or expedient not to extend the Rights Issue to these Shareholders on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to the Excluded Shareholders and the Company will disclose the explanation for such exclusion in the Prospectus. The Company will only send the Prospectus to the Excluded Shareholders for their information.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last day for dealings in nil-paid Rights Shares if a premium (net of expenses) can be obtained, proceeds of each sale, less expenses and stamp duty, above HK\$100 will be distributed by the Company to the relevant Excluded Shareholders pro rata to their shareholdings on the Record Date (but rounded down to the nearest cent) in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold nil-paid Rights Shares of the Excluded Shareholders will be made available for excess application by the Qualifying Shareholders.

Rights Issue Price

The Rights Issue Price is HK\$0.10 per Rights Share and is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the relevant Rights Shares.

The Rights Issue Price represents:

- (a) a discount of approximately 58.33% to the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 57.45% to the average closing price of approximately HK\$0.235 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a discount of approximately 55.36% to the average closing price of approximately HK\$0.224 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 79.38% to the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2016 of approximately HK\$1,395,847,000 (based on the audited consolidated net assets of the Group of approximately HK\$1,441,302,000) and 2,876,375,117 Shares in issue as at the date of this announcement); and
- (e) a discount of approximately 50.00% to the theoretical ex-rights price of approximately HK\$0.200 based on the closing price of approximately HK\$0.240 per Share as quoted on the Stock Exchange on the Last Trading Day (assuming no outstanding Share Options being exercised on or before the Record Date).

The Rights Issue Price was determined by the Directors with reference to the amount of fund targeted to be raised by the Company, the market price of the Shares under the prevailing market conditions and the current financial position of the Group. The Directors consider that the discount on the Rights Issue Price is appropriate and the terms and structure of the Rights Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole as the Company will be able to raise funds whilst at the same time, the Rights Issue gives the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical market price of the Shares.

Basis of provisional allotments

Two (2) Rights Shares (in nil-paid form) for every five (5) existing Shares held by Qualifying Shareholders on the Record Date. Any holdings (or balance of holdings) of less than five (5) Shares will not entitle their holders to be provisionally allotted two (2) Rights Shares. Please refer to the arrangement as referred to in the paragraph headed “Fractional entitlements” below.

Fractional entitlements

The Company will not provisionally allot and will not accept applications for any fractions of Rights Shares. All fractions of the Rights Shares will be aggregated (and rounded down to the nearest whole number) and all nil-paid Rights Shares arising from such aggregation will be sold in the market and the proceeds will be retained by the Company for its own benefit, if a premium (net of expenses and stamp duty) can be obtained. Any such unsold aggregated fractions of nil-paid Rights Shares will be made available for excess application by the Qualifying Shareholders. No odd lot matching services will be provided.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid in respect thereof on or after the date of allotment and issue of such Rights Shares.

Application for excess Rights Shares

Under the Rights Issue, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders, any unsold Rights Shares created by adding together fractions of the Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application can be made by Qualifying Shareholders only and only by completing the excess application form for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Directors will, upon consultation with the Underwriters, allocate the excess Rights Shares at their discretion on a fair and equitable basis according to the principle that any excess Rights Shares will be allocated to Qualifying Shareholders who apply for them on a pro rata basis by reference to the number of excess Rights Shares applied for, but no reference will be made to the number of Rights Shares applied for under a provisional allotment letter or the existing number of Shares held by such Qualifying Shareholders. If the aggregate number of Rights Shares not taken up by the Qualifying Shareholders under the provisional allotment letters is greater than the aggregate number of excess Rights Shares applied for through forms of application for excess Rights Shares, the Directors will allocate in full to each Qualifying Shareholder the number of excess Rights Shares applied for under the forms of application for excess Rights Shares. No preference will be given to topping up odd lots to whole board lots.

In applying the above principles, reference will only be made to the number of excess Rights Shares being applied for.

Investors with their Shares held by a nominee company (or which are deposited in CCASS) should note that the Board will regard the nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually save and except the beneficial owner(s) which the Company shall permit in its absolute discretion. Investors with their Shares held by a nominee company (or which are deposited in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) on or prior to the Record Date.

Investors whose Shares are held by their nominee(s) (or which are deposited in CCASS) and who would like to have their names registered on the register of members of the Company on the Record Date, must lodge all necessary documents with the Registrar for completion of the relevant registration by 4:30 p.m. on Wednesday, 24 May 2017.

Share Certificates for the Rights Shares and refund cheques

Subject to fulfilment of the conditions of the Rights Issue as set out below, share certificates for the fully-paid Rights Shares are expected to be despatched by ordinary post on or before Monday, 26 June 2017 to those persons who have validly accepted and paid for the Rights Shares and those successful applicants for the excess Rights Shares to the registered address or, in case of joint applicants, to the registered address of the applicant whose name first appears in the register of members of the Company in Hong Kong or, as the case may be, the transfer form, at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) will be despatched on or before Monday, 26 June 2017 by ordinary post to the addresses as aforesaid at the respective applicants' own risks.

Condition of the Rights Issue

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement. The conditions to the Underwriting Agreement are set out in the sub-section headed "Conditions of the Underwriting Agreement" below.

If the conditions of the Underwriting Agreement which include, but not limited to, the granting of the Whitewash Waiver to CECEP (Hong Kong) by the Executive, are not fulfilled or waived, the Rights Issue will not proceed.

Application for listing

The Company will apply to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid form. The nil-paid and fully-paid Rights Shares will be traded in same board lots of 8,000.

No part of the Shares for which listing or permission to deal is being or is proposed to be sought, is listed, or dealt in on any other stock exchange.

Rights Shares will be eligible for admission into CCASS

Subject to the listing of and permission to deal in all the Rights Shares in both nil-paid and fully-paid form on the Stock Exchange being granted, the Rights Shares in both nil-paid and fully-paid form will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Rights Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Stamp duty and other applicable fees and charges

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy or any other applicable fees and charges in Hong Kong.

THE UNDERWRITING AGREEMENT

On 12 April 2017 (after trading hours), the Underwriters and the Company entered into the Underwriting Agreement in respect of the underwriting arrangement for the Rights Issue. The principal terms of the Underwriting Agreement are as follows:

Date: 12 April 2017 (after trading hours)

Underwriters:

- (i) CECEP (Hong Kong);
- (ii) Mr. Xu;
- (iii) GTJA Securities; and
- (iv) Ms. Chan

Number of Underwritten Shares:	The Underwriters have conditionally agreed pursuant to the Underwriting Agreement to underwrite the Underwritten Shares on a fully underwritten basis, being not less than 586,257,646 Rights Shares and not more than 730,425,646 Rights Shares, subject to the terms and conditions of the Underwriting Agreement
Underwriting commitment:	<p>The Underwritten Shares shall be underwritten on the following basis:</p> <ul style="list-style-type: none"> (i) 40% of the Underwritten Shares by CECEP (Hong Kong); (ii) 40% of the Underwritten Shares by Mr. Xu; (iii) 15% of the Underwritten Shares by GTJA Securities; and (iv) 5% of the Underwritten Shares by Ms. Chan.
Underwriting commission or fees:	<p>2.5% of the aggregate subscription price in respect of the Underwritten Shares to be underwritten by GTJA Securities (for avoidance of doubt, it shall mean the maximum number of the Underwritten Shares to be underwritten by GTJA Securities, regardless whether or not it is called upon to subscribe or procure subscribers for any such Underwritten Shares)</p> <p>No commission will be paid to CECEP (Hong Kong), Mr. Xu and Ms. Chan</p> <p>The commission rate was determined after arm's length negotiations between the Company and the Underwriters with reference to, among other things, the scale of the Rights Issue and market rate. The Board considers that the underwriting commission rate is fair and reasonable and in the interests of the Company and the Shareholders as a whole.</p>
Conditions:	Please refer to the paragraph headed "Conditions" below.
Latest Time for Termination:	4:00 p.m. on the next Business Day following (but excluding) the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriters and the Company in writing, being the latest time to terminate the Underwriting Agreement.

Termination:

If, prior to the Latest Time for Termination:

- (i) in the opinion of the Underwriters, the success of the Rights Issue would be materially and adversely affected by:
 - (a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriters materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the signing of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriters, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
 - (d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

- (ii) there is any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of termination of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which, in the reasonable opinion of the Underwriters, makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (iii) any material breach of any of the warranties or undertakings made by the Company under the Underwriting Agreement comes to the knowledge of the Underwriters,

the Underwriters shall be entitled, by notice in writing to the Company served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Company has attempted to procure an independent third party underwriter to fully underwrite the Underwritten Shares, but it expressed no interest. The existing underwriting arrangement was reached after arm's length negotiations and commercial dealings between the Company and the Underwriters, which have taken into account the trading volume of the Company and the benefits and risks of being an Underwriter. The Directors consider that the terms and structure of the Rights Issue are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Information on the Underwriters

CECEP (Hong Kong) is a company incorporated in Hong Kong with limited liability.

CECEP (Hong Kong) is principally engaged in the investment in the Hong Kong, Singapore and other capital markets focusing equity investment in energy conservation and environmental protection industry and engaged in environmental consultancy services as well as financing and capital services. Its ordinary course of business does not include underwriting.

As at the date of this announcement, CECEP (Hong Kong) holds 850,000,000 Shares (representing approximately 29.55% of the existing issued share capital of the Company) and therefore a substantial shareholder of the Company.

Mr. Xu is the joint chairman of the Board and an executive Director and is interested in aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company).

Ms. Chan is an executive Director and is interested in aggregate of 51,710,000 Shares (representing approximately 1.80% of the existing issued share capital of the Company).

GTJA Securities is a licensed corporation to carry out business in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, GTJA Securities and its associates are third parties independent of and not connected with (within the meaning under GEM Listing Rules), the Directors, chief executive or Substantial Shareholders of the Company or any of its subsidiaries and their respective associates.

Conditions

The obligations of the Underwriters under the Underwriting Agreement are several (and not joint and several) and conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (a) the approval by the Independent Shareholders of the Whitewash Waiver by way of poll at the EGM in accordance with the Takeovers Code;
- (b) the grant by the Executive, and not having withdrawn or revoked such grant, of the Whitewash Waiver, and the fulfilment of all conditions, of any, attached to it;
- (c) the listing committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms);
- (d) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and where necessary, the filing of all documents relating to the Rights Issue with the Registrar of Companies in the Cayman Islands in accordance with the Companies Law of the Cayman Islands;
- (e) the posting of the Prospectus to the Shareholders on the Company's registrar of members on the Record Date and the posting of provisional allotment letter and form of application for excess Rights Shares to the Qualifying Shareholders;
- (f) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement; and
- (g) the Underwriters having received on or before the date of the Underwriting Agreement the Irrevocable Undertakings duly executed by each of CECEP (Hong Kong), Mr. Xu, Mr. Xu's spouse and Ms. Chan and Ms. Chan's spouse.

Neither the Company nor the Underwriters may waive the conditions (c) to (e) set out above. The Underwriters may waive conditions (f) and (g) set out above in whole or in part by written notice to the Company. CECEP (Hong Kong) may in its absolute discretion waive conditions (a) and (b) set out above by notice in writing to the Company.

In the case where the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, CECEP (Hong Kong) reserves its right as to whether or not to waive condition (a) and (b). If CECEP (Hong Kong) waives such conditions, it will comply with the provisions of the Takeovers Code to make a general offer under Rule 26.1 of the Takeovers Code conditional upon there being an obligation on CECEP (Hong Kong) to make a general offer under Rule 26.1 of the Takeovers Code upon completion of the Right Issue.

If the conditions of the Underwriting Agreement are not satisfied and/or waived in whole or in part by the Underwriters (or CECEP (Hong Kong), as the case may be), by the Latest Time for Acceptance or such later date or dates as the Underwriters may agree with the Company in writing, the Underwriting Agreement shall terminate and no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed.

Irrevocable Undertakings

As at the date of this announcement, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares (representing approximately 29.55% of the existing issued share capital of the Company); (ii) Mr. Xu and his spouse are interested in an aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan and her spouse are interested in an aggregate of 51,710,000 Shares (representing approximately 1.80% of the existing issued share capital of the Company). CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse have executed the Irrevocable Undertakings in favour of the Company and the Underwriters, pursuant to which, among other things, each of CECEP (Hong Kong), Mr. Xu and his spouse, and Ms. Chan and her spouse irrevocably undertaken that the Shares beneficially owned by them on the date of the Irrevocable Undertakings will remain beneficially owned by them on the Record Date and each of them has irrevocably undertaken to lodge application and pay for their respective provisional allotments of the Rights Shares under the Rights Issue (being an aggregate of 564,292,400 Rights Shares). Each of Mr. Xu and Ms. Chan has further irrevocably and unconditionally undertaken to the Company and the Underwriters that they would not exercise any of Share Option vested to each of them on or before the Latest Time for Acceptance.

Save for the Irrevocable Undertakings, the Company has not obtained undertakings from any other Shareholders that they will subscribe for any or all of the Rights Shares to be provisionally allotted to them.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company immediately before and after the completion of the Rights Issue is set out below:

(a) Assuming no outstanding Share Options being exercised on or before the Record Date:

	As at the date of this announcement		Immediately after completion of the Rights Issue assuming all Shareholders take up their respective entitlements to the Rights Shares in full		Immediately after completion of the Rights Issue assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken up by the Underwriters	
	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>	<i>Number of Shares held</i>	<i>%</i>
CECEP (Hong Kong)	850,000,000	29.55%	1,190,000,000	29.55%	1,424,503,058	35.37%
Mr. Xu and his spouse (Note 1)	509,021,000	17.70%	712,629,400	17.70%	947,132,459	23.52%
Ms. Chan and her spouse (Note 2)	51,710,000	1.80%	72,394,000	1.80%	101,706,882	2.53%
Sub-total	1,410,731,000	49.05%	1,975,023,400	49.05%	2,473,342,399	61.42%
GTJA Securities (Note 3)	–	–	–	–	87,938,647	2.18%
Other Shareholders	1,465,644,117	50.95%	2,051,901,763	50.95%	1,465,644,117	36.40%
Total	<u>2,876,375,117</u>	<u>100.0%</u>	<u>4,026,925,163</u>	<u>100.0%</u>	<u>4,026,925,163</u>	<u>100.0%</u>

(b) Assuming the outstanding Share Options being exercised in full on or before the Record Date:

	As at the date of this announcement		Immediately after all the outstanding Share Options are exercised but before the completion of the Rights Issue		Immediately after completion of the Rights Issue assuming all Shareholders take up their respective entitlements to the Rights Shares in full		Immediately after completion of the Rights Issue assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken up by the Underwriters	
	Number of Shares held	%	Number of Shares held	%	Number of Shares held	%	Number of Shares held	%
CECEP (Hong Kong)	850,000,000	29.55%	850,000,000	25.68%	1,190,000,000	25.68%	1,482,170,258	31.99%
Mr. Xu and his spouse (Note 1)	509,021,000	17.70%	542,621,000	16.40%	759,669,400	16.40%	1,051,839,659	22.70%
Ms. Chan and her spouse (Note 2)	51,710,000	1.80%	90,710,000	2.74%	126,994,000	2.74%	163,515,282	3.53%
Sub-total	1,410,731,000	49.05%	1,483,331,000	44.82%	2,076,663,400	44.82%	2,697,525,199	58.22%
GTJA Securities (Note 3)	-	-	-	-	-	-	109,563,847	2.36%
Other Shareholders	1,465,644,117	50.95%	1,826,064,117	55.18%	2,556,489,763	55.18%	1,826,064,117	39.41%
Total	<u>2,876,375,117</u>	<u>100.0%</u>	<u>3,309,395,117</u>	<u>100.0%</u>	<u>4,633,153,163</u>	<u>100.0%</u>	<u>4,633,153,163</u>	<u>100.0%</u>

Notes:

1. Mr. Xu is an executive Director and the joint Chairman of the Company and is directly interested in 508,319,000 Shares. Mr. Xu's spouse is directly interested in 702,000 Shares.
2. Ms. Chan is an executive Director and is directly interested in 41,636,000 Shares. Ms. Chan's spouse is directly interested in 10,074,000 Shares.
3. In circumstances where the Rights Issue has become unconditional and GTJA Securities, as one of the Underwriters, is obliged to take up all its commitment to the relevant number of Underwritten Shares in accordance with the Underwriting Agreement, its underwriting commitment would amount to a stake from approximately 2.18% to 2.36% (as the case may be) of the share capital of the Company as enlarged by the issue of the Rights Shares.

4. As a result of the completion of the Rights Issues and assuming no Shareholder (other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse taking up 564,292,400 Shares in aggregate pursuant to the Irrevocable Undertakings) takes up any of the Underwritten Shares and all Underwritten Shares are taken by the Underwriters, Mr. Xu's shareholding interest in the Company would be 20% or more and hence he would be presumed to be a party acting in concert with CECEP (Hong Kong) (which also holds 20% or more of Shares in the Company) under the presumption in class 1 of the definition of "acting in concert" under the Takeovers Code (the "Class 1 Presumption"), unless such presumption is rebutted. An application was made by the Company to rebut the Class 1 presumption and on 24 February 2017, the Executive issued a ruling that based on the information provided and representations made in the application by the Company, the Class 1 Presumption was rebutted.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

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.

The estimated net proceeds from the Rights Issue (after deducting all estimated expenses) will be not less than approximately HK\$112.2 million and not more than approximately HK\$129.5 million which will be used for the general working capital of the Group. This covers two major aspects: (i) approximately 40%-50% will be used on the payment of operational expenses, such as payment of salaries and rents, general operational expenses, etc, and (ii) approximately 50%-60% will be used on project-based related expenses, including but not limited to purchasing equipment for the project implementation and construction.

Having considered other fund raising alternatives for the Group, including issuance of debt securities and Share placements and taking into account the benefit and costs of each alternative, the Board considers that the Rights Issue provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position, while at the same time the Rights Issue will enable all Shareholders to participate in the future development of the Company on equal terms. Since the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and therefore avoid dilution, the Board considers that it is in the interests of the Company and the Shareholders as a whole to raise capital through the Rights Issue.

The estimated expenses of the Rights Issue are about HK\$2.9 million, which include underwriting commission and professional fees payable to the financial adviser, lawyers, financial printer and other parties involved in the Rights Issue and will be borne by the Company. The net subscription price per Rights Share (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) is expected to be approximately HK\$0.10.

POSSIBLE ADJUSTMENT TO THE SHARE OPTIONS

As a result of the Rights Issue, it is expected that the exercise prices, and/or the number of Shares, of the outstanding Share Options will be adjusted in accordance with the terms and conditions of the Share Option Scheme. The Company will engage the Company's auditors to review and determine the relevant adjustments and make further announcements on the appropriate adjustments and the date they are expected to take effect in due course.

EXPECTED TIMETABLE

The expected timetable of the Rights Issue is set out below:

2017

Despatch of circular with notice of EGM	Thursday, 27 April
Latest time for lodging transfer of shares to qualify for attendance and voting at the EGM	4:30 p.m. on Friday, 12 May
Closure of register of members to determine the identity of the Shareholders entitled to attend and vote at the EGM (both days inclusive)	Monday, 15 May to Friday, 19 May
Expected time of the EGM	11:00 a.m. on Friday, 19 May
Announcement of poll results of the EGM	Friday, 19 May
Last day of dealings in the Shares on a cum-rights basis	Monday, 22 May
First day of dealing in the Shares on an ex-rights basis	Tuesday, 23 May
Latest time for lodging transfers of Shares accompanied by the relevant title documents in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 24 May
Closure of register of members to determine the eligibility of the Rights Issue (both days inclusive)	Thursday, 25 May to Thursday, 1 June
Record Date for the Rights Issue	Thursday, 1 June
Despatch of the Prospectus Documents	Friday, 2 June
First day of dealings in nil-paid Rights Shares	Tuesday, 6 June

Latest time for splitting nil-paid Rights Shares 4:30 p.m. on Thursday, 8 June

Last day of dealings in nil-paid Rights Shares Tuesday, 13 June

Latest time for payment for and acceptance of the
Rights Shares and application for excess Rights Shares 4:00 p.m. on Friday, 16 June

Latest time for the Rights Issue to become unconditional 4:00 p.m. on Monday, 19 June

Announcement of results of the Rights Issue Friday, 23 June

Refund cheques in respect of wholly or partially
unsuccessful applications for excess Rights Shares
to be despatched on or before Monday, 26 June

Share certificates of the Rights Shares to be
posted on or before Monday, 26 June

Dealing in fully-paid Rights Shares commences 9:00 a.m. on Tuesday, 27 June

All times specified in this announcement refer to Hong Kong local time. Dates or deadlines specified in this announcement are indicative only and may be varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if there is a tropical cyclone warning signal no.8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 16 June 2017. Instead the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 16 June 2017. Instead the latest time of acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares does not take place on Friday, 16 June 2017, the dates mentioned herein may be affected. The Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

Save for the Rights Issue, there have been no funds raised on any issue of Shares in the 12 months immediately preceding the date of this announcement.

REGULATORY REQUIREMENTS

Takeover Code

Application for Whitewash Waiver

As at the date of this announcement, CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company.

Pursuant to the Underwriting Agreement, CECEP (Hong Kong), as one of the Underwriters, has conditionally agreed to underwrite the Underwritten Shares. Assuming no acceptance by the Qualifying Shareholders (except CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse who would subscribe to their respective entitlements pursuant to the Irrevocable Undertakings) under the Rights Issue, CECEP (Hong Kong) will be required to take up the Underwritten Shares in accordance with the its agreed underwriting commitment pursuant to the Underwriting Agreement and the shareholding of CECEP (Hong Kong) upon completion of the Rights Issue would amount to approximately 35.37% of the then issued share capital of the Company as enlarged by the allotment and issue of the Rights Shares assuming no outstanding Share Options being exercised on or before the Record Date. Under such circumstances, CECEP (Hong Kong) would be required to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company (other than those already owned or agreed to be acquired by CECEP (Hong Kong)) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

CECEP (Hong Kong) will make an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

It is a one of the conditions of the Underwriting Agreement and completion of the Rights Issue that the Whitewash Waiver is being granted by the Executive and approved by the Independent Shareholders. Pursuant to the Underwriting Agreement, CECEP (Hong Kong) reserves its right as to whether or not to waive such condition. If the Whitewash Waiver is not granted by the Executive or

not approved by the Independent Shareholders and such condition is not waived by CECEP (Hong Kong), the Underwriting Agreement will not become unconditional and the Rights Issue may not proceed.

Other arrangements

As at the date of this announcement, there is:

- (i) save as disclosed in the paragraph headed “Shareholding Structure of the Company” in this announcement, no voting rights or rights over the Shares, options, derivatives, warrants, other securities convertible into Shares, or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) owned or controlled or directed by the CECEP (Hong Kong) or any parties acting in concert with it;
- (ii) no irrevocable commitment received by CECEP (Hong Kong) or any parties acting in concert with it to vote for or against the resolution(s) approving the Whitewash Waiver;
- (iii) no outstanding derivatives in respect of securities in the Company entered into by CECEP (Hong Kong) or any parties acting in concert with it;
- (iv) no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or the shares of CECEP (Hong Kong) and which might be material to the Whitewash Waiver;
- (v) no other agreement or arrangement to which CECEP (Hong Kong) is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Whitewash Waiver;
- (vi) none of CECEP (Hong Kong) or any parties acting in concert with it has any dealings in any securities of the Company in the six-month period preceding the date of this announcement; and
- (vii) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which CECEP (Hong Kong) or any parties acting in concert with it has borrowed or lent.

CECEP (Hong Kong)’s reservation of rights to waive the Whitewash Waiver

The grant and approval of the Whitewash Waiver is condition precedent to the Underwriting Agreement. In the case where the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, CECEP (Hong Kong) reserves its right as to whether or not to waive such condition. If CECEP (Hong Kong) waives such condition, it will comply with the provisions of the Takeovers Code to make a general offer under Rule 26.1 of the Takeovers Code conditional upon there being an obligation on CECEP (Hong Kong) to make a general offer under Rule 26.1 of the Takeovers Code upon completion of the Right Issue.

GEM Listing Rules

As at the date of this announcement, (i) CECEP (Hong Kong) is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company; (ii) Mr. Xu is an executive Director and is interested in an aggregate of 509,021,000 Shares (representing approximately 17.70% of the existing issued share capital of the Company); and (iii) Ms. Chan is an executive Director. Accordingly, each of CECEP (Hong Kong), Mr. Xu and Ms. Chan is a connected person of the Company and the transactions contemplated under the Underwriting Agreement constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

Pursuant to Rule 20.90(2) of the GEM Listing Rules, as the Company has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 10.31(1) of the GEM Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Since the Rights Issue would increase neither the issued share capital nor the market capitalisation of the Company by more than 50%, the Rights Issue is not required to be conditional on approval by the Shareholders under Rule 10.29 of the GEM Listing Rules.

GENERAL

Under the Takeovers Code, the Whitewash Waiver would be conditional on, among other matters, approval by the Independent Shareholders at the EGM. The resolution proposed to be voted at the EGM will be conducted by way of poll.

Pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, as each of CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse is interested in the Whitewash Waiver, they are required to abstain from voting on the resolution to be proposed at the EGM in relation to the Whitewash Waiver. Save for CECEP (Hong Kong), Mr. Xu, and his spouse, Ms. Chan, and her spouse, no Shareholder is involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM.

The Independent Board Committee has been established to advise and give recommendation to the Independent Shareholders on the terms of Rights Issue, the Underwriting Agreement and the Whitewash Waiver. An independent financial adviser will be appointed to advise the Independent Board Committee thereon. An announcement will be made by the Company when the independent financial adviser is appointed.

Pursuant to Rule 8.2 of the Takeovers Code, a circular containing, among other matters, further details of (i) the Whitewash Waiver; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Whitewash Waiver; (iii) a letter of

advice from the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the Whitewash Waiver; and (iv) a notice of the EGM, shall be despatched within 21 days of the date of this announcement, or such later date as the Executive may approve.

Upon the approval by the Independent Shareholders of the Whitewash Waiver at the EGM and having obtained and the granting of the Whitewash Waiver by the Executive or CECEP (Hong Kong) waived the condition of the grant and approval of the Whitewash Waiver, the Prospectus or Prospectus Documents, as appropriate, containing further information on the Rights Issue will be dispatched to Shareholders as soon as practicable.

Reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code in accordance with Rule 3.8 of the Takeovers Code:

“Responsibilities of stockbrokers, banks and other intermediaries

Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 of the Takeovers Code and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million.

This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.

Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”

Respective associates (as defined in the Takeovers Code including a person who owns or controls 5% or more of any class of relevant securities or any person who as a result of any transaction owns or controls 5% or more of any class of relevant securities) of the Company and CECEP (Hong Kong) are reminded to disclose their dealings in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

WARNING OF RISKS OF DEALINGS IN THE SHARES AND RIGHT SHARES

The Rights Issue is conditional upon, among others, the Underwriting Agreement becoming unconditional and the Underwriters not terminating the Underwriting Agreement in accordance with its terms. Accordingly, the Rights Issue may or may not proceed. Shareholders and potential investors are advised to exercise due caution when dealing with the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate its obligations on the occurrence of certain events including force majeure. Please refer to the section headed “The Underwriting Agreement” in this announcement above for further details.

Shareholders should note that the Shares will be dealt in on an ex-rights basis commencing from Tuesday, 23 May 2017. The Rights Shares will be dealt with in their nil-paid form from Tuesday, 6 June 2017 to Tuesday, 13 June 2017 (both days inclusive). Any Shareholders or other persons dealing in the Shares or in the Rights Shares in their nil-paid form up to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be at 4:00 p.m. on Monday, 19 June 2017) will accordingly bear the risk that the Rights Issue cannot become unconditional and may not proceed. Any Shareholders or other persons contemplating selling or purchasing the Shares or Rights Shares in their nil-paid form who are in any doubt about their position are recommended to consult their professional advisers. Shareholders and potential investors should exercise caution in dealing in the securities of the Company.

The register of members of the Company will be closed from Thursday, 25 May 2017 to Thursday, 1 June 2017 (both days inclusive) to determine the eligibility of the Qualifying Shareholders. No transfer of Shares will be registered during the book closure period. To qualify for the Rights Issue, a Qualifying Shareholder’s name must appear on the register of members of the Company in Hong Kong on the Record Date, which is currently expected to be Thursday, 1 June 2017. In order to be registered as a member of the Company in Hong Kong on the Record Date, any transfer of Shares (together with the relevant title documents) must be lodged with the Hong Kong branch share registrar and transfer office for registration by 4:30 p.m. on Wednesday, 24 May 2017.

DEFINITIONS

Terms used in this announcement have the following meanings unless the context otherwise requires:

“Acting in concert”	has the same meaning as ascribed to it under the Takeovers Code and for the purposes of this announcement
“Board”	the board of Directors
“Business Day(s)”	any day (excluding Saturday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CECEP Group”	a stated-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of State Council of the PRC
“CECEP (Hong Kong)”	China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited, a company incorporated in Hong Kong with limited liability and as at the date of this announcement, is a wholly owned-subsiidiary of CECEP Group
“Closing Date”	the date falling on the third Business Day after the Latest Time for Acceptance
“Company”	China Ground Source Energy Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fits, approve by the Independent Shareholders, the Whitewash Waiver
“Excluded Shareholders”	Overseas Shareholders whom the Board, based on legal opinions provided by legal advisers, considers it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“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

“GTJA Securities”	Guotai Junan Securities (Hong Kong) Limited, a registered institution as defined in the SFO which is licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong branch share registrar and transfer office”	Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors, who have no direct or indirect interest in the Whitewash Waiver, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui, established for the purpose of advising and giving recommendation to the Independent Shareholders on the Whitewash Waiver. Mr. Zhao Youmin, being non-executive Director and director of the CECEP (Hong Kong) is having an interest in the Whitewash Waiver and therefore would not be a member of the Independent Board Committee.
“Independent Shareholders”	the Shareholders other than CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse, and those who are involved in or interested in the Rights Issue, the Underwriting Agreement and/or the Whitewash Waiver
“Irrevocable Undertakings”	the irrevocable undertakings dated 12 April 2017 given by CECEP (Hong Kong), Mr. Xu and his spouse, Ms. Chan and her spouse in favour of the Company and the Underwriters, as described in the paragraph headed “Irrevocable Undertakings” in this announcement
“Last Trading Day”	12 April 2017, being the last trading day of the Shares on the Stock Exchange prior to the issue of this announcement

“Latest Time for Acceptance”	4:00 p.m. on Friday, 16 June 2017 or such later time or date as may be agreed between the Company and the Underwriters, being the latest time for acceptance of the offer of Rights Shares and if there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance will be postponed to the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.
“Latest Time for Termination”	4:00 p.m. on the next Business Day after the Latest Time for Acceptance, or such later time or date as may be agreed between the Company and the Underwriters
“Listing Committee”	has the meaning ascribed to it under the GEM Listing Rules
“Mr. Xu”	Mr. Xu Shengheng, an executive Director and the joint Chairman of the Company
“Ms. Chan”	Ms. Chan Wai Kay Katherine, an executive Director of the Company
“Overseas Shareholders”	Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the Rights Issue prospectus
“Prospectus Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date, other than the Excluded Shareholders
“Record Date”	Thursday, 1 June 2017 or such other date as may be agreed between the Company and the Underwriters in accordance with the relevant regulations or requirements

“Rights Issue”	the proposed offer by the Company by way of rights of the Rights Shares at the Rights Issue Price pursuant to the Prospectus Documents and summarised in this announcement
“Rights Issue Price”	the rights issue price of HK\$0.10 per Rights Share under the Rights Issue
“Rights Share(s)”	not less than 1,150,550,046 new Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 1,323,758,046 new Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date) proposed to be allotted and issued by way of rights to the Qualifying Shareholders
“SFC”	the Securities and Futures Commission in Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented from time to time
“Share(s)”	the ordinary share(s) of US\$0.01 each in the issued share capital of the Company
“Shareholders”	the shareholders of the Company
“Share Options”	share options granted by the Company pursuant to the Share Option Scheme which entitled the holders to subscribe for new Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 28 July 2010
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriters”	collectively, CECEP (Hong Kong), Mr. Xu, GTJA Securities and Ms. Chan
“Underwriting Agreement”	the underwriting agreement dated 12 April 2017 entered into between the Company and the Underwriters in relation to underwriting arrangement in respect of the Rights Issue

“Underwritten Shares”	not less than 586,257,646 Rights Shares (assuming no outstanding Share Options being exercised and no Shares being repurchased by the Company on or before the Record Date) and not more than 730,425,646 Rights Shares (assuming the outstanding Share Options being exercised in full on or before the Record Date), being all Rights Shares (other than those Rights Shares to be taken up under the Irrevocable Undertakings) underwritten by the Underwriters pursuant to the Underwriting Agreement
“Whitewash Waiver”	a waiver to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligation of CECEP (Hong Kong) to make a mandatory general offer to acquire all the issued Shares and cancel all outstanding options of the Company not already owned or agreed to be acquired by CECEP (Hong Kong) and the parties acting in concert with it which may otherwise arise as a result of the subscription of the Underwritten Shares by CECEP (Hong Kong) pursuant to the Underwriting Agreement and/or the subscription of the Rights Shares by CECEP (Hong Kong) pursuant to any application for any excess Rights Shares accepted by the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States
“%”	per cent

By order of the Board
CHINA GROUND SOURCE ENERGY INDUSTRY GROUP LIMITED
Xu Shengheng
Joint Chairman & Executive Director

Hong Kong, 12 April 2017

As at the date of this announcement, the Board comprises Mr. An Yi, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine, Mr. Wang Manquan, Mr. Zang Yiran and Mr. Dai Qi as executive Directors, Mr. Zhao Youmin as non-executive Director, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang and Mr. Guo Qingui as independent non-executive Directors.

This announcement, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained

in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

As at the date of this announcement, the directors of CECEP (Hong Kong) are Mr. Zhao Youmin, Mr. Du Le, Ms. Wang Lijuan and Ms. Xu Genghong.

CECEP (Hong Kong) and the directors of CECEP (Hong Kong) jointly and severally accept full responsibility for the accuracy of the information in relation to the CECEP (Hong Kong) in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of CECEP (Hong Kong) in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

As at the date of this announcement, the directors of CECEP Group are Liu Dashan, Wang Tongzhou, Wu Taishi, Zhang Xiaolu, Ju Zhanghua, Liu Maoxun, Jia Changbin, Jiang Kaixi and Zhu Min.

CECEP Group and the directors of CECEP Group jointly and severally accept full responsibility for the accuracy of the information in relation to the CECEP (Hong Kong) in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the directors of CECEP (Hong Kong) in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of the Company at www.cgsenergy.com.hk.