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**中國地能有限公司**  
**CHINA GROUND SOURCE ENERGY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 8128)**

## **CONTINUING CONNECTED TRANSACTIONS**

The Board announces that on 21 March 2013, the Company entered into the Agreement with CECEP whereby CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to sell the Products and the Services. The term of the Agreement is from the Effective Date to 31 December 2015. The annual caps for the transactions contemplated thereunder shall not be more than the amounts prescribed pursuant to the Agreement.

As at the date of this announcement, CECEP (through its wholly-owned subsidiary CECEP (HK)) is holding 29.28% issued share capital of the Company and thus a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Based on the proposed annual caps for the period from the Effective Date to 31 December 2015, the Continuing Connected Transactions, when aggregated, are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Company will seek the Independent Shareholders' approval for the Agreement and the proposed annual caps for the period from the Effective Date to 31 December 2015 for the Continuing Connected Transactions at the forthcoming AGM.

A circular which contains, among other information, (1) a letter from the Board containing further details of the Agreement; (2) a letter from the independent committee of the Board setting out its recommendations in connection with the Continuing Connected Transactions and the related proposed annual caps to the Independent Shareholders; (3) a letter from an independent financial adviser containing its advice in connection with the Continuing Connected Transactions and the related proposed annual caps to the independent committee of the Board and the Independent Shareholders; and (4) notice of the AGM is expected to be despatched to the Shareholders on or before 16 April 2013.

## **INTRODUCTION**

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

## **THE AGREEMENT**

### **Date**

21 March 2013

### **Parties**

- (1) the Company (as vendor)
- (2) CECEP (as purchaser)

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.

## **Term**

For a period commencing from the Effective Date to 31 December 2015.

## **Subject Matter**

The Company and its subsidiaries have agreed to sell to CECEP and its subsidiaries, and CECEP and its subsidiaries have agreed to purchase from the Company and its subsidiaries, the Products and the Services during the term of the Agreement.

## **Condition Precedent**

The taking effect of the Agreement is conditional upon the Independent Shareholders' approval of the Agreement, the transactions contemplated thereunder, and the proposed annual caps for the period from the Effective Date to 31 December 2015 for the Continuing Connected Transactions at the AGM.

If the above condition is not fulfilled on or before 31 August 2013 (or such later date as may be agreed between the parties), the 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 following table sets out the proposed annual caps for, in aggregate, the purchases of the Products and the Services by CECEP and its subsidiaries from the Company and its subsidiaries for the period from the Effective Date to 31 December 2015:

	<b>From Effective Date to 31 December 2013</b>	<b>From 1 January 2014 to 31 December 2014</b>	<b>From 1 January 2015 to 31 December 2015</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Sale and purchase of the Products	80,000,000	150,000,000	200,000,000
Sale and purchase of the Services	7,000,000	17,000,000	22,000,000

## **Basis of the selling price of the Products and the Services**

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

## **Basis of Proposed Annual Caps**

The proposed annual caps for the Agreement for the period from the Effective Date to 31 December 2015 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 Agreement.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT**

The Company is an investment holding company principally engaged in environmental protection and new energy business with marketing modality of pursuing integrated services including investment, system installation and operation in promoting the ground source energy as alternative energy for heating/cooling. The entering into of the Agreement will enable the Group to expand its customer base and enhance the selling of its products and services. Further, the entering into of the Agreement can enhance the business cooperation between the Group and CECEP.

The Agreement was entered into by the respective parties in the ordinary and usual course of business of the Group. The Directors (except the independent non-executive Directors whose view will be formed after obtaining the advice of the independent financial adviser) consider that:

- (a) the terms and conditions of the Agreement were negotiated between the parties on an arm's length basis and are on normal commercial terms that are fair and reasonable;
- (b) the proposed annual caps in respect of the Agreement for the period from the Effective Date to 31 December 2015 as referred to above are fair and reasonable; and
- (c) the Continuing Connected Transactions 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.

## **GENERAL**

A circular which contains, among other information, (1) a letter from the Board containing further details of the Agreement; (2) a letter from the independent committee of the Board setting out its recommendations in connection with the Continuing Connected Transactions and the related proposed annual caps to the Independent Shareholders; (3) a letter from an independent financial adviser containing its advice in connection with the Continuing Connected Transactions and the related proposed annual caps to the independent committee of the Board and the Independent Shareholders; and (4) notice of the AGM is expected to be despatched to the Shareholders on or before 16 April 2013.

## DEFINITIONS

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

“AGM”	the annual general meeting of the Company to be convened for, among other matters, approving the Agreement and the related proposed annual caps for the three years commencing from the Effective Date to 31 December 2015 for the Continuing Connected Transactions
“Agreement”	the framework agreement dated 21 March 2013 for the sale and purchase of the Products and the Services made between the Company and CECEP
“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CECEP”	China Energy Conservation and Environmental Protection Group 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 & Environmental Protection (Hong Kong) Investment Co., Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CECEP
“Company”	China Ground Source Energy Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“connected persons”	has the meaning ascribed to it under the GEM Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions constituted by the transactions contemplated under the Agreement
“Directors”	the directors of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Agreement or 1 May 2013, whichever is the later
“GEM”	the Growth Enterprise Market of the Stock Exchange

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HYY”	Ever Source Science and Technology Development Group Ltd.* (恆有源科技發展集團有限公司), a subsidiary indirectly-owned by the Company as to its 94.58% equity interests
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes 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 Company as focus, and using shallow ground energy as alternative energy for heating/cooling, including but not limited to, the “HYY ground source energy heat pump environmental system” and the “HYY multi-source distributed energy stations focused on using ground source energy”
“RMB”	Renminbi, the lawful currency of the PRC
“Services”	operational services, including but not limited to, the control of energy-saving optimization of the product operation, repair, maintenance and supervision services, in relation to the sale and installation of the Products
“Shareholders”	the holders of the Shares
“Share(s)”	share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiaries” has the meaning ascribed to it under the GEM Listing Rules

“%” per cent

By order of the Board  
**China Ground Source Energy Limited**  
**Zheng Qiyu**  
Chairman

Hong Kong, 21 March 2013

*As at the date of this announcement, the Board comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine and Mr. Xu Shengheng as executive Directors, Ms. Wu Xiaohua, Ms. Xu Genghong and Mr. Zang Yiran as non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang as independent non-executive Directors.*

*This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the GEM website with the domain name of [www.hkgem.com](http://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](http://www.cgsenergy.com.hk).*

\* *For identification purpose only*