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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)

MAJOR AND CONNECTED TRANSACTION FORMATION OF JV COMPANY

JV CONTRACT

The Board is pleased to announce that on 19 April 2013 (after trading hours), HYY (a subsidiary of the Company) and Zhejiang CECEP entered into the JV Contract in relation to the establishment of the JV Company, which will be owned by Zhejiang CECEP and HYY as to 51% and 49% with a registered capital of RMB600,000,000. The JV Company is established mainly for procuring a piece of land at West Lake District in Hangzhou City for construction of the “China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zone”, and co-promotion of green buildings and geothermal energy utilization demonstration projects.

GEM LISTING RULES IMPLICATIONS

As at the date hereof, Zhejiang CECEP is a wholly-owned subsidiary of CECEP. As CECEP (HK) is both the substantial Shareholder of the Company and a wholly-owned subsidiary of CECEP, Zhejiang CECEP is an associate of CECEP(HK) and is a connected person of the Company under the GEM Listing Rules. Accordingly, the JV Contract and the transactions contemplated thereby constitute a connected transaction of the Company for the purpose of the GEM Listing Rules. Since the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the contribution by HYY exceed 25% but are less than 75%, the entering of the JV Contract constitutes a major and connected transaction of the Company under Chapters 19 and 20 of the GEM Listing Rules and therefore is subject to the reporting, announcement and independent shareholders’ approval requirements thereunder.

GENERAL

A circular containing, among other things, (a) further details of the JV Contract; (b) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (c) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the AGM will be despatched to the Shareholders on or before 10 May 2013.

INTRODUCTION

The Board is pleased to announce that on 19 April 2013 (after trading hours), HYY (the Company's subsidiary) and Zhejiang CECEP entered into the JV Contract in relation to the establishment of the JV Company, which will be owned by Zhejiang CECEP and HYY as to 51% and 49% with a registered capital of RMB600,000,000. The JV Company is established mainly for procuring a piece of land at West Lake District in Hangzhou City for construction of the "China Energy-saving Buildings • Geothermal Energy for Heating (Cooling) Demonstration Zone", and co-promotion of green buildings and geothermal energy utilization demonstration projects.

PRINCIPAL TERMS OF THE JV CONTRACT

Set out below are the principal terms of the JV Contract:

Date

19 April 2013

Parties

- (1) : HYY
- (2) : Zhejiang CECEP

Registered Capital of the JV Company

Zhejiang CECEP shall contribute RMB306,000,000 (equivalent to approximately HK\$382,500,000) and HYY shall contribute RMB294,000,000 (equivalent to approximately HK\$367,500,000) to the registered capital of the JV Company in the amount of RMB600,000,000 (equivalent to approximately HK\$750,000,000), which will be satisfied in cash by both parties.

Zhejiang CECEP shall pay up its contribution to the registered capital in the full amount of RMB306,000,000 (equivalent to approximately HK\$382,500,000) in one lump sum in April 2013. HYY shall pay the first instalment of its contribution to the registered capital in the amount of RMB30,000,000 (equivalent to approximately HK\$37,500,000) in April 2013, and the remaining

contribution shall be made within 90 days after the establishment of the JV Company. As at the date hereof, Zhejiang CECEP has paid RMB306,000,000 (equivalent to approximately HK\$382,500,000) and HYY has paid RMB30,000,000 (equivalent to approximately HK\$37,500,000) for the JV Company's registered capital.

The amount of the registered capital of the JV Company was determined after arm's length negotiations between the parties and is based on the anticipated future funding requirements of the JV Company for its initial business development.

Scope of Business

The JV Company is principally engaged in real estate development and operation; research and development, consultancy, technical training and transfer of achievements in respect of energy conservation and emission reduction technologies, energy saving and environmental protection equipment, innovative heating and cooling devices; and provision of energy saving and environmental protection engineering, heating and cooling integrated devices and services.

Board Composition

The board of directors of the JV Company will comprise five (5) members, of which three (3) will be nominated by Zhejiang CECEP and two (2) will be nominated by HYY. Each director (including the chairman) shall serve for a term of three (3) years and may be re-elected or replaced upon expiry of his term of service. A director appointed by Zhejiang CECEP shall serve as the chairman and a director appointed by HYY shall serve as vice chairman of the board of directors.

Profit Distribution and Sharing of Loss

The parties shall share profits as well as risks and losses of the JV Company, to the extent of their contributions, in proportion to their respective contributions to the registered capital of the JV Company.

CONDITIONS PRECEDENT OF THE JV CONTRACT

The JV Contract is conditional upon:

- i) approval by competent authorities in accordance with relevant laws and requirements of the SASAC;
- ii) compliance with relevant requirements under the GEM Listing Rules; and
- iii) the approval by the Independent Shareholders at a general meeting in relation to the JV Contract and the transactions contemplated thereby in accordance with the GEM Listing Rules.

SOURCES OF FUNDING

The Board intends to finance HYY's contribution to the registered capital of the JV Company from the Group's internal resources and/or external financing.

REASONS AND BENEFITS FOR ENTERING INTO THE JV CONTRACT

Zhejiang CECEP is principally engaged in development of green buildings and energy conservation and environmental protection businesses in eastern China with an aim to promote regional economic transformation and lead in industrial upgrades. HYY, focusing on its original innovative "HYY single well circulation heat exchange collection technology", is actively exploring the development opportunities by combining clean energy and practical energy-saving building technologies. As such, in the principle of mutual benefit, complementary advantages and cooperation for win-win as well as taking the advantage of the sound cooperation between Zhejiang CECEP and local government, the parties formed as strategic partners expect to co-develop the two major businesses namely green building development and promotion of geothermal energy technology by leveraging on the opportunity in the construction of geothermal energy demonstration zone featuring core energy conservation technologies of China. Through the co-operation, the Company can proactively promote geothermal energy as alternative energy for heating (cooling) in eastern China, which will be beneficial to its strategic development.

Taking into consideration that the JV Contract is on normal commercial terms which are determined on an arm's length basis, the Directors (excluding independent non-executive Directors, opinion of whom will be set out in a letter from the Independent Board Committee to be included in a circular) are of the view that the JV Contract is on fair and reasonable terms and in the interest of the Company and Shareholders as a whole.

INFORMATION OF THE COMPANY AND ZHEJIANG CECEP

The Company is principally engaged in environmental protection and new energy businesses with marketing modality of pursuing integrated services including investment, system installation and operation in promoting the shallow geothermal energy as alternative energy for heating (cooling).

Zhejiang CECEP, a wholly-owned subsidiary of CECEP established in Zhejiang, is a domestically first-class low-carbon zone developer and integrated energy-saving building operator, with businesses covering four segments including low-carbon demonstration zone, promotion of energy-saving building services, incubation of investment projects and operation of international exchange and cooperation platform. With development through the years, Zhejiang CECEP has established the clusters incorporating low-carbon industrial zones, economic zones and living zones in eastern China, playing an effective promotional and demonstration role in the energy-saving building sector.

GEM LISTING RULES IMPLICATIONS

As at the date hereof, Zhejiang CECEP is a wholly-owned subsidiary of CECEP. As CECEP (HK) is both the substantial shareholder of the Company and a wholly-owned subsidiary of CECEP, Zhejiang CECEP is a connected person of the Company under the GEM Listing Rules. Accordingly, the JV Contract and the transactions contemplated thereby constitute a connected transaction of the Company for the purpose of the GEM Listing Rules.

Since the applicable percentage ratios (as defined in Rule 19.07 of the GEM Listing Rules) in relation to the contribution by HYY exceed 25% but are less than 75%, the entering of the JV Contract constitutes a major and connected transaction of the Company under Chapters 19 and 20 of the GEM Listing Rules and therefore is subject to the reporting, announcement and independent shareholders' approval requirements thereunder.

In view of the material interests of CECEP (HK), being a connected person of the Company, in the transactions contemplated under the JV Contract, CECEP (HK) and its associates, holding an aggregate of 850,000,000 Shares (representing approximately 29.28% of the Company's share capital in issue as at the date hereof, will abstain from voting at the AGM in respect of the relevant resolution(s) for approving the JV Contract and the transactions contemplated thereby. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save for CECEP (HK), no Shareholders are required to abstain from voting at the AGM in respect of the relevant resolution(s) for approving the JV Contract.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Hu Zhaoguang, has been established to advise the Independent Shareholders in relation to the terms of the JV Contract. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of JV Contract are fair and reasonable for the purpose of the Independent Shareholders and in the interest of the Company and Shareholders as a whole. No member of the Independent Board Committee is materially interested in the transactions contemplated under the JV Contract.

GENERAL

A circular containing, among other things, (a) further details of the JV Contract; (b) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (c) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the AGM will be despatched to the Shareholders on or before 10 May 2013.

DEFINITIONS

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

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| “AGM” | the annual general meeting of the Company to be held on 13 June 2013 at 9:30 a.m. |
| “associates” | has the meaning ascribed to it under the GEM Listing Rules |
| “Board” | the board of Directors |
| “CECEP” | China Energy Conservation and Environmental Protection Group* (中國節能環保集團公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC |
| “CECEP (HK)” | China Energy Conservation & Environmental Protection (Hong Kong) Investment Co., Limited, 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 |
| “Directors” | the directors of the Company |
| “GEM” | the Growth Enterprise Market of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries from time to time |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HYE” | Ever Source Science and Technology Development Group Ltd.* (恒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 |

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| “Independent Board Committee” | an independent committee of the Board comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the transactions under the JV Contract |
| “Independent Shareholders” | Shareholders excluding CECEP (HK) and its associates |
| “JV Company” | a company which will be incorporated and registered in the PRC and named as CECEP Green Construction (Hangzhou) Technology Development Ltd.* (中節能綠建(杭州)科技發展有限公司) pursuant to the JV Contract |
| “JV Contract” | the joint venture contract made between HYY and Zhejiang CECEP dated 19 April 2013 for the formation of the JV Company |
| “PRC” or “China” | 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 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SASAC” | State-owned Assets Supervision and Administration Commission of the State Council |
| “Share(s)” | share(s) in the share capital of the Company |
| “Shareholders” | the holders of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Zhejiang CECEP” | Zhejiang CECEP Green Construction Environmental Protection Technology Ltd.* (浙江中節能綠建環保科技有限公司) |

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

Hong Kong, 19 April 2013

Unless otherwise specified in this announcement, the conversion of RMB into HK\$ is based on the exchange rate of RMB1 = HK\$1.25. Such conversion is for reference purpose only and should not be construed as a representation that the amount in question has been, could have been or could be converted at any particular rate or at all.

As at the date of this announcement, the Board comprises Mr. Zheng Qiyu, Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Zang Yiran as executive Directors, Ms. Wu Xiaohua and Ms. Xu Genghong 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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.