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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)**

**CONNECTED TRANSACTION  
IN RELATION TO THE SUBSCRIPTION OF 15.35% EQUITY INTEREST IN  
FUJIAN CECEP QUANCHENG INVESTMENT CO., LTD.**

The Board is pleased to announce that on 4 February 2013, HYY, a subsidiary of the Company, and New Material Company have entered into the Capital Increment Agreement. Pursuant to the Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Quancheng Investment at a total consideration of RMB40,000,000 (equivalent to approximately HK\$49,826,000).

Upon completion of the Subscription, the Company will hold approximately 15.35% of the enlarged registered capital of Quancheng Investment.

New Material Company is a wholly-owned subsidiary of CECEP Group. As CECEP HK, a substantial shareholder of the Company, is also a wholly-owned subsidiary of CECEP Group, New Material Company is a connected person of the Company according to the GEM Listing Rules. As the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules in respect of the Subscription are greater than 1% but less than 5% and the Consideration exceeds HK\$1 million, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under the GEM Listing Rules.

**INTRODUCTION**

The Board is pleased to announce that on 4 February 2013, HYY, a subsidiary of the Company, and New Material Company have entered into the Capital Increment Agreement. Pursuant to the Agreement, HYY has agreed to subscribe for new registered capital of Quancheng Investment. The total consideration for the Subscription is RMB40,000,000 (equivalent to approximately HK\$49,826,000). Upon Completion, the Company will hold approximately 15.35% of the enlarged registered capital of Quancheng Investment.

## **THE CAPITAL INCREMENT AGREEMENT**

**Date** : 4 February 2013

**Parties to the Agreement** : (1) CECEP New Material Investment Co. Ltd.\*  
(中節能新材料投資有限公司)

(2) Ever Source Science and Technology Development  
Group Ltd.\* (恆有源科技發展集團有限公司)

### **CAPITAL INCREMENT**

As at of the date of this announcement, the registered capital of Quancheng Investment is RMB100,000,000 (equivalent to approximately HK\$124,565,000), which has been fully paid by New Material Company. Pursuant to the Agreement, HYY has agreed to subscribe for approximately 15.35% equity interest in Quancheng Investment at a consideration of RMB40,000,000 (equivalent to approximately HK\$49,826,000). The initial investment period will be two years, subject to further negotiation and agreement by both parties. Following the completion of the Subscription, the registered capital of Quancheng Investment will be increased to RMB118,130,000 (equivalent to approximately HK\$147,149,000). New Material Company and HYY will respectively own approximately 84.65% and 15.35% equity interest of Quancheng Investment.

### **CONSIDERATION**

The total consideration for the Subscription is RMB40,000,000 (equivalent to approximately HK\$49,826,000). The consideration for the Subscription will be payable in cash at Completion and will be funded by the Company from its internal cash resources.

The Consideration was determined after arm's length negotiations between the parties with reference to the valuation of the net assets of Quancheng Investment which was valued at RMB220,647,800 (equivalent to approximately HK\$274,851,000) as at 30 September 2012 according to the valuation report dated 2 November 2012 issued by an independent qualified professional valuer.

### **EQUITY INCOME DISTRIBUTION**

Pursuant to the Agreement, New Material Company has agreed that Quancheng Investment shall distribute to HYY at an annual rate of 10% of the actual capital contribution of HYY from its distributable profit, and any amount in excess shall be paid to New Material Company. However, if the distributable profit of Quancheng Investment payable to HYY is less than 10% of the actual capital contribution of HYY, the shortfall shall be paid by New Material Company to HYY within 15 working days from the date of payment of profit distribution. If New Material Company has failed to pay the shortfall to HYY, HYY has the right to require New Material Company to buy back all the equity interest owned by HYY in Quancheng Investment within 30 working days at the amount calculated by reference to 10% of the annualized rate of the return of actual capital contribution after deducting the profit already distributed plus the actual investment principal amount which has been paid by HYY.

HYY shall be entitled to the equity income to be paid from the distributable profit of Quancheng Investment semi-annually. The payments of such equity income shall be made in June and December every year. After the capital of Quancheng Investment has been increased and HYY owns approximately 15.35% equity interest in Quancheng Investment, the first profits allocation shall be calculated and made in proportion to the length of time of holding the equity interest.

## **COMMITMENT**

Pursuant to the Agreement, New Material Company undertakes that, under the same terms and where conditions are suitable for using ground source energy for the heating systems, ground source energy will be firstly chosen as heating supply energy in the green constructions projects that are developed by New Material Company, including those of Quancheng Investment.

## **FORMATION OF THE BOARD AND THE SUPERVISORY BOARD**

Both parties have agreed that upon signing of the Agreement and upon full payment of the subscription money, a shareholder's meeting of Quancheng Investment will be convened for the formation of the board of directors and a supervisory board. The board of directors of Quancheng Investment shall comprise three persons, two of them shall be nominated by New Material Company whereas HYY shall nominate one person. The chairman shall be nominated by New Material Company.

The supervisory board of Quancheng Investment shall comprise three persons. Each of New Material Company and HYY shall nominate one person. The remaining one will be the employees' representative of Quancheng Investment. New Material Company will be responsible for the daily operation and management of Quancheng Investment while HYY can nominate representative to oversee it.

## **COMPLETION OF THE CAPITAL INCREMENT**

Within 3 days of the signing of the Agreement, HYY will pay the Consideration pursuant to the Agreement, and New Material Company will be responsible for the work in respect of the internal resolution and the amendment of the company registration of Quancheng Investment with the relevant authorities. After Completion, HYY will hold approximately 15.35% of the enlarged registered capital of Quancheng Investment.

## **INFORMATION ON THE COMPANY AND NEW MATERIAL COMPANY**

The Company is 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 an alternative energy for heating/cooling.

New Material Company is a limited company incorporated in the PRC and is an energy conservation and environmental protection enterprise that is principally engaged in the research and development of the technology and production of energy-saving building material, manufacturing of energy-saving building material equipment, construction of energy-saving building, research and development of high-tech mineral materials.

## INFORMATION ON QUANCHENG INVESTMENT

Quancheng Investment is a limited company incorporated in the PRC on 21 November 2011 with registered capital of RMB100,000,000 (equivalent to approximately HK\$124,565,000) as at the date of this announcement which has been fully paid by New Material Company. Quancheng Investment is mainly engaged in the business of development of green construction.

According to the unaudited financial information of Quancheng Investment, as at 31 December 2012, the book value of the total assets and net assets of Quancheng Investment was RMB155,984,000 (equivalent to approximately HK\$194,302,000) and RMB111,749,000 (equivalent to approximately HK\$139,201,000) respectively.

Set out below is the unaudited financial information of Quancheng Investment, which were prepared in accordance with the PRC accounting standards:

	21 November 2011 to 31 December 2011 (Unaudited) <i>RMB'000</i>	<b>12 months ended 31 December 2012 (Unaudited) <i>RMB'000</i></b>
Net profits/(loss) before taxation	(493)	<b>13,220</b>
Net profits/(loss) after taxation	(493)	<b>12,242</b>

## REASONS FOR, AND BENEFITS OF, THE SUBSCRIPTION

As the Group is principally engaged in businesses for the promotion of application and its technology of utilization of ground source energy as alternative energy for heating (cooling) supply, it is intended that, through the capital increment, the Company can promote its principal business to the projects of Quancheng Investment. In addition, the Company's investment made in the capital increment can enjoy a guaranteed fixed return of 10% per annum which will bring a fixed income for the Company in future.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the Capital Increment Agreement, including the consideration thereof, are on normal commercial terms and the terms of which are fair and reasonable. The entering into of the Capital Increment Agreement is in the interests of the Group and the Shareholders as a whole.

None of the Directors has a material interest in the transaction contemplated under the Capital Increment Agreement and none of them has abstained from voting on the relevant board resolutions.

## IMPLICATIONS UNDER THE GEM LISTING RULES

New Material Company is a wholly-owned subsidiary of CECEP Group. As CECEP HK, a substantial shareholder of the Company, is also a wholly-owned subsidiary of CECEP Group, New Material Company is a connected person of the Company according to the GEM Listing Rules. As the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules in respect of the Subscription are greater than 1% but less than 5% and the Consideration exceeds HK\$1 million, the Subscription constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules and is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under the GEM Listing Rules.

## DEFINITIONS

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

“Agreement” or “Capital Increment Agreement	the capital increment agreement dated 4 February 2013 entered into between HY Y and New Material Company
“Board”	the board of Directors
“CECEP Group”	China Energy Conservation and Environmental Protection Group Company* (中國節能環保集團公司), a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of the State Council of the PRC
“CECEP HK”	China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited* (中國節能環保(香港)投資有限公司), a company incorporated in Hong Kong with limited liability and wholly owned by CECEP Group
“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
“Completion”	completion of the Subscription pursuant to the terms and conditions of the Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules

“Consideration”	consideration for the Subscription, being RMB40,000,000 (equivalent to approximately HK\$49,826,000)
“Director(s)”	director(s) 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
“HYY”	Ever Source Science and Technology Development Group Ltd.* (恆有源科技發展集團有限公司), a subsidiary that indirectly-owned by the Company as to its 94.58% equity interests
“New Material Company”	CECEP New Material Investment Co. Ltd. * (中節能新材料投資有限公司), a company incorporated in PRC with limited liability and wholly owned by CECEP Group
“PRC”	the People Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Quancheng Investment”	Fujian CECEP Quancheng Investment Co., Ltd.* (福建中節能泉城投資有限公司), a company incorporated in the PRC with limited liability and wholly owned by New Material Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of approximately 15.35% of the enlarged registered capital of Quancheng Investment
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

*Conversion of RMB into HK\$ in this announcement is based on the exchange rate of HK\$1 = RMB0.802791. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at such or any other rates or at all.*

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

Hong Kong, 4 February 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*