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# CGS

**CHINA GROUND SOURCE ENERGY LIMITED**

**中國地能有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8128)

**LETTER OF INTENT IN RELATION TO  
SUBSCRIPTION OF NEW SHARES  
UNDER GENERAL MANDATE AND SPECIFIC MANDATE  
AND  
RESUMPTION OF TRADING**

**SUBSCRIPTION**

On 11 April 2012 (after trading hours), the Company entered into the Letter of Intent with the Subscriber in relation to the allotment and issue of 850,000,000 Subscription Shares at a price of HK\$0.41 per Subscription Share.

Of the 850,000,000 Subscription Shares, the Tranche A Subscription Shares (representing 413,061,423 Subscription Shares), shall be issued and allotted under the General Mandate and the Tranche B Subscription Shares (representing the remaining 436,938,577 Subscription Shares) shall be issued and allotted under the Specific Mandate. The Board shall seek the grant of a Specific Mandate from the Shareholders to allot and issue the Tranche B Subscription Shares at the EGM.

**GENERAL**

The EGM will be held to consider and, if thought fit, pass the resolution to approve the Specific Mandate and any transactions contemplated thereunder.

To the best information, knowledge and belief of the Directors having made all reasonable enquiries, as at the date of this announcement, no Shareholder has an interest in the Specific Mandate and any transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Specific Mandate and any transactions contemplated thereunder. Should the Tranche A Subscription Shares be issued and allotted to the Subscriber on or before the date of the EGM, the Subscriber will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Specific Mandate and any transactions contemplated thereunder.

The circular containing, among other things, (i) further details of the Specific Mandate; and (ii) a notice of the EGM for the purpose of, among others, approving the Specific Mandate and any transactions contemplated thereunder will be dispatched to Shareholders on or before 4 May 2012.

## **RESUMPTION OF TRADING IN SHARES**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 12 April 2012 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 13 April 2012.

## **THE SUBSCRIPTION**

On 11 April 2012 (after trading hours), the Company entered into the Letter of Intent with the Subscriber in relation to the allotment and issue of 850,000,000 Subscription Shares at a price of HK\$0.41 per Subscription Share.

**Date:** 11 April 2012 (after trading hours)

**Parties:** Issuer: the Company

Subscriber: 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.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owners are Independent Third Parties.

## **Subscription Shares**

The 850,000,000 Subscription Shares represent approximately 41.16% of the total issued share capital of the Company as at the date of the Letter of Intent and approximately 29.16% of the total issued share capital of the Company as enlarged by the issuance of the Subscription Shares upon Completion. Upon Completion, the Subscriber will become a substantial Shareholder (as defined under the Listing Rules).

As at the date of the Letter of Intent, the Subscriber does not hold any Share.

## **Subscription Price**

The Subscription Price of HK\$0.41 per Subscription Share was arrived at after arm's length negotiation between the Company and the Subscriber with reference to the prevailing market price of the Shares. The Directors consider the Subscription Price and the terms and conditions of the Letter of Intent are fair and reasonable and in the interests of the Company and Shareholders as a whole.

The Subscription Price represents:

- (i) a discount of approximately 9.89% to the closing price of HK\$0.455 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (ii) a discount of approximately 6.82% to the average closing price of approximately HK\$0.44 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day.

The net proceeds from the Share Subscription, after deducting all the relevant costs and expenses in connection with the Subscription, is estimated to be approximately HK\$347.5 million. Accordingly, the net price per Subscription Share will be approximately HK\$0.409.

## **Conditions precedent**

Pursuant to the Letter of Intent, (i) completion of the subscription of Tranche A Subscription Shares shall be conditional upon fulfilment of conditions (a) to (i); and (ii) completion of the subscription of Tranche B Subscription Shares shall be conditional upon fulfilment of conditions (a) to (k) of the following respectively:

- (a) the Listing Committee of the Stock Exchange granting, or having agreed to grant, the listing of, and permission to deal in, all the Subscription Shares;
- (b) the Subscriber will not be required to make a general offer pursuant to Rule 26.1 of the Takeovers Code as a result of the Subscription;
- (c) the Subscriber having obtained all consents from its holding company(ies), owners, the PRC governmental authorities or other parties which are required or appropriate for the Subscription;
- (d) the Subscriber having issued an written confirmation that it is satisfied with the due diligence performed on the Company in the aspects of financial, tax, legal, operation, capital, trading or others;
- (e) the independent auditor of the Company having confirmed no qualified opinion in the audited annual results of the Company for the year ended 31 March 2012;

- (f) no indication being received from the Stock Exchange and/or the SFC that the listing of the Shares on GEM will or may be withdrawn or objected to in connection with the Subscription;
- (g) the Company having obtained clearance from the Stock Exchange and/or the SFC on this announcement and the Circular (where required);
- (h) there is no governmental departments or authorities or courts issuing any order, judgement, claims and instruction so that any transactions contemplated under the Letter of Intent become illegal or the Company is unable to allot and issue the Subscription Shares or the Subscriber is unable to subscribe the Subscription Shares;
- (i) the statements, warranties and undertakings contained in the Letter of Intent are true and accurate on the date of the Letter of Intent and remains true and accurate on the date(s) of completion in all material aspects;
- (j) completion of the subscription of Tranche A Subscription Shares by the Subscriber; and
- (k) the Shareholders having approved at the EGM the Specific Mandate.

Without limitation to the above conditions (a) to (k), the Subscriber and the Company confirmed and agreed that the above conditions (a) to (k) should be treated as not being fulfilled if the following situations happen:

- (I) for condition (b) above, if the SFC considers that the obligation of the Subscriber and parties acting in concert with it in making a general offer pursuant to Rule 26.1 of the Takeovers Code as a result of the Subscription has occurred or will occur; or
- (II) for condition (d) above, if the Subscriber informs the Company in writing during any time between the date of the Letter of Intent and up to the long stop date of the Letter of Intent stated therein, i.e. 31 August 2012 that it is not satisfied with the results of the due diligence on the Company.

The Subscriber may at any time waive in writing any of the conditions (b) to (i) above. If any of the above conditions are not fulfilled (or waived, where applicable) on or before 31 August 2012 or such later date as the Company and the Subscriber may agree, the Letter of Intent shall terminate and the parties thereto shall be released and discharged from all obligations save for liabilities in respect of any antecedent breaches thereof.

Completion of the subscription of Tranche A Subscription Shares is expected to take place within three Business Days after all the relevant conditions precedent of the Letter of Intent having been fulfilled (or such other date as the parties to the Letter of Intent may agree).

Completion of the subscription of Tranche B Subscription Shares is expected to take place within three Business Days after all the conditions precedent of the Letter of Intent having been fulfilled (or such other date as the parties to the Letter of Intent may agree).

## **Undertakings**

Pursuant to the Letter of Intent, upon completion of the subscription of Tranche A Subscription Shares, the Subscriber has the rights to nominate two executive Directors, two non-executive Directors and one independent non-executive Director (the “**Nominees**”), and the Company shall accordingly appoint the Nominees who are qualified pursuant to the laws in Hong Kong and GEM Listing Rules.

Upon completion of the Subscription, the Subscriber would become the single largest substantial Shareholder. Pursuant to the Letter of Intent, the Subscriber has warranted that the Nominees would propose at the Board meetings and support the distribution of dividends of not less than 15% of the net profit after tax of the Company to the Shareholders per annum. The Subscriber acknowledges that the Group will focus on research and promotion of using shallow ground energy as alternative energy for heating, as well as commercial models of the promotion and management team for relevant operations. The Subscriber and the Company shall jointly seek for new investment opportunities for energy conservation and environmental protection to maximize profits and value for the Shareholders.

Pursuant to the Letter of Intent, the Subscriber is restricted for the disposal of any of the Subscription Shares within 18 months upon completion of the subscriptions of the Tranche A Subscription Shares and Tranche B Subscription Shares respectively.

## **Mandate to issue the Subscription Shares**

### ***Tranche A Subscription Shares***

Of the 850,000,000 Subscription Shares, the Tranche A Subscription Shares (representing 413,061,423 Subscription Shares), shall be issued and allotted under the General Mandate granted to the Directors at the annual general meeting of the Company held on 10 August 2011. The Directors were authorised to allot and issue up to 413,061,423 Shares pursuant to the General Mandate. Up to the date of this announcement, the General Mandate has not been utilized. Accordingly, the issue of the Tranche A Subscription Shares is not subject to any approval by the Shareholders.

### ***Tranche B Subscription Shares***

Of the 850,000,000 Subscription Shares, the Tranche B Subscription Shares (representing the remaining of 436,938,577 Subscription Shares after deducting the Tranche A Subscription Shares) shall be issued and allotted under the Specific Mandate. The Board shall seek the grant of a Specific Mandate from the Shareholders to allot and issue the Tranche B Subscription Shares at the EGM.

## **REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS**

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 shallow ground energy as alternative energy for heating.

The Subscriber is a wholly-owned subsidiary of CECEP and principally engaged in energy conservation and environmental protection projects and its investments. CECEP is principally engaged in research and development of energy conservation, environmental protection and new energy technology, investments in projects and construction operation.

The Company and the Subscriber intend to jointly develop in the energy conservation and environmental protection fields.

The aggregate gross proceeds from the Subscription will be approximately HK\$348.5 million and the net proceeds (after deducting all the relevant costs and expenses in connection with the Subscription) will be approximately HK\$347.5 million and will be mainly used as general working capital for development of the Company's business in application of shallow ground energy as alternative energy for heating and/or for future investment opportunities for energy conservation and environmental protection.

## EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structures of the Company (i) as at the date of this Announcement; (ii) immediately upon the completion of the subscription of the Tranche A Subscription Shares; and (iii) immediately upon the completion of the Subscription (assuming no Shares are issued or repurchased during the such period of time):

	As at the date of this announcement		Completion of subscription of Tranche A Subscription Shares		Completion of subscription of Tranche A Subscription Shares and Tranche B Subscription Shares	
	Shares	%	Shares	%	Shares	%
Mr. Xu Shengheng ( <i>Note</i> ) and his associates	609,021,000	29.49	609,021,000	24.57	609,021,000	20.89
Ms. Chan Wai Kay Katherine ( <i>Note</i> ) and her associates	44,074,000	2.13	44,074,000	1.78	44,074,000	1.51
Mr. Wu Shu Min ( <i>Note</i> )	36,505,750	1.77	36,505,750	1.47	36,505,750	1.25
Subscriber	–	0.00	413,061,423	16.67	850,000,000	29.16
Public Shareholders	1,375,706,367	66.61	1,375,706,367	55.51	1,375,706,367	47.19
Total	2,065,307,117	100.00	2,478,368,540	100.00	2,915,307,117	100.00

*Note:* Being an executive Director.

## **FUND RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS**

The Company does not have any fund raising activities during the 12-month period prior to the date of this announcement.

## **LISTING APPLICATION AND RANKING OF SUBSCRIPTION SHARES**

The Subscription Shares, when issued and fully paid, will rank pari passu among themselves and with the Shares then in issue at the time of allotment and issue of the Subscription Shares.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

## **GENERAL**

The EGM will be held to consider and, if thought fit, pass the resolution to approve the Specific Mandate and any transactions contemplated thereunder.

To the best information, knowledge and belief of the Directors having made all reasonable enquiries, as at the date of this announcement, no Shareholder has an interest in the Specific Mandate and any transactions contemplated thereunder. Accordingly, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Specific Mandate and any transactions contemplated thereunder. Should the Tranche A Subscription Shares be issued and allotted to the Subscriber on or before the date of the EGM, the Subscriber will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Specific Mandate and any transactions contemplated thereunder..

The circular containing, among other things, (i) further details of the Specific Mandate; and (ii) a notice of the EGM for the purpose of, among others, approving the Specific Mandate and any transactions contemplated thereunder, will be dispatched to Shareholders on or before 4 May 2012.

## **RESUMPTION OF TRADING IN SHARES**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 12 April 2012 pending the release of this announcement. Application will be made to the Stock Exchange for the resumption of trading in Shares with effect from 9:30 a.m. on 13 April 2012.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	means a day on which banks are generally open for business in Hong Kong (excluding Saturdays, Sundays and public holidays)
“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
“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 person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company to consider and approve, inter alia, the Letter of Intent and the grant of the Specific Mandate
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors at the annual general meeting of the Company held on 10 August 2011 to allot or otherwise deal with the unissued Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



“Last Trading Day”	11 April 2012, being the last trading day prior to the signing of the Letter of Intent
“Letter of Intent”	the letter of intent dated 11 April 2012 entered into between the Company and the Subscriber in relation to the allotment and issue of the Subscription Shares, which is legally binding in nature
“PRC”	The People Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SFC”	Securities and Futures Commission of Hong Kong
“Shares”	ordinary shares of US\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Specific Mandate”	a specific mandate to be sought from the Shareholders at the EGM to allot and issue the Tranche B Subscription Shares pursuant to the Letter of Intent
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	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
“Subscription”	the subscription of the Subscription Shares in the amount of HK\$348.5 million by the Subscriber
“Subscription Price”	the subscription price of HK\$0.41 per Subscription Share
“Subscription Shares”	850,000,000 Shares to be issued by the Company and to be subscribed by the Subscriber
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC
“Tranche A Subscription Shares”	413,061,423 Subscription Shares to be issued and allotted under the General Mandate
“Tranche B Subscription Shares”	436,938,577 Subscription Shares to be issued and allotted under the Specific Mandate

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	the United States of America dollars, the lawful currency of the United States of America
“%”	per cent.

By order of the board of  
**China Ground Source Energy Limited**  
**Chan Wai Kay, Katherine**  
*Chairman*

Hong Kong, 12 April 2012

*As at the date of this announcement, the Board comprises Ms. Chan Wai Kay, Katherine, Mr. Xu Shengheng and Mr. Wu Shu Min as executive Directors, Mr. Fu Hui Zhong and Ms. Luk Hoi Man as non-executive Directors, Mr. Jia Wenzeng, Mr. Paul Chow Wan Hoi and Mr. Wu De Sheng 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 GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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).*