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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in China Ground Source Energy Industry Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)**

## MAJOR AND CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**

**HQRAY 好盈**

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A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 of this circular. A letter from Hooray Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 14 to 27 of this circular.

A notice convening the EGM to be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 30 May 2016 at 11:30 a.m. (or immediately following the conclusion of the annual general meeting of the Company at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 30 May 2016 at 11:00 a.m., whichever is later) is set out on pages 38 to 39 of this circular.

A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" section of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least 7 days from the date of its posting and on the website of the Company at ([www.egsenergy.com.hk](http://www.egsenergy.com.hk)).

13 May 2016

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“associates”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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 and Environmental Protection (Hong Kong) Investment Co., 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 is wholly-owned by CECEP
“Circular”	the circular of the Company dated 13 May 2016 in relation to, among other matters, details of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 to be considered and approved at the EGM
“Company”	China Ground Source Energy Industry Group Limited (中國地能產業集團有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the GEM
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Continuing Connected Transactions”	collectively the Loan and Guarantee Services and the Deposit Services
“Deposit Services”	inter alia, demand deposit, saving deposit, notice deposit and agreed deposit services proposed to be provided by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“Director(s)”	the director(s) of the Company
“Effective Date”	the date of the Independent Shareholders’ approval of the Financial Services Agreement or 1 May 2016, whichever is the later

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018
“EGM Notice”	the notice of the EGM dated 13 May 2016
“Finance Company”	China Energy Finance Company Limited* (中節能財務有限公司), a limited liability company incorporated in the PRC and a wholly owned subsidiary of CECEP
“Financial Services Agreement”	the financial services agreement dated 24 March 2016 entered into between the Finance Company and 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai, established to advise the Independent Shareholders in respect of the terms of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 and the transactions contemplated thereunder
“Independent Financial Adviser” or “Hooray Capital”	Hooray Capital Limited, a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018
“Independent Shareholders”	Shareholders excluding CECEP (HK) and its associates
“Latest Practicable Date”	11 May 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“Loan and Guarantee Services”	the provision of guarantee services and the granting of loans by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“Other Financial Services”	other financial services provided by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“PBOC”	the People’s Bank of China, the central bank of the PRC with the statutory authority to, inter alia, control monetary policy in the PRC
“PRC”	the People’s Republic of China which, for the purposes of this Circular, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the free cash clearance and settlement services provided by the Finance Company to member(s) of the Group pursuant to the terms and provisions set out in the Financial Services Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	ordinary share(s) of US\$0.01 each 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

\* *For identification purposes only*

*In case of any discrepancy between the English version and the Chinese version of this circular, the English version shall prevail.*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Liu Dajun  
Mr. Xu Shengheng  
Ms. Chan Wai Kay, Katherine  
Mr. Zang Yiran

*Non-executive Directors:*

Mr. Zhao Youmin  
Mr. Daiqi

*Independent non-executive Directors:*

Mr. Jia Wenzeng  
Mr. Wu Desheng  
Mr. Zhang Honghai

*Registered office:*

Floor 4, Willow House,  
Cricket Square,  
P.O. Box 2804,  
Grand Cayman KY1-1112,  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Units 3709-10, 37/F,  
The Center,  
99 Queen's Road Central,  
Central, Hong Kong

13 May 2016

*To the Shareholders,*

Dear Sir or Madam,

### **MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

Reference is made to the announcements of the Company dated 24 March 2016 and 30 March 2016 in relation to the entering of the Financial Services Agreement and the clarification in relation to Continuing Connected Transactions. Pursuant to the requirements under the GEM Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

The purposes of this circular are to provide you with (1) a letter from the Board containing further details of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps; (3) a letter from Hooray Capital to the Independent

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## LETTER FROM THE BOARD

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Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps; (4) notice of convening the EGM; and (5) other information as required under the GEM Listing Rules.

### CONTINUING CONNECTED TRANSACTIONS

#### FINANCIAL SERVICES AGREEMENT

**Date:**

24 March 2016 (after trading hours)

**Parties:**

- I. the Company (on behalf of its subsidiaries); and
- II. the Finance Company (as service provider)

**Term:**

For the period commencing from the Effective Date to 31 December 2018.

**Services to be provided:**

The services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement include the Deposit Services, the Settlement Services, the Loan and Guarantee Services, and the Other Financial Services.

**1. *The Deposit Services***

The Finance Company would provide, inter alia, demand deposit, saving deposit, notice deposit and agreed deposit. The interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits. In the event the Finance Company cannot repay the deposits on demand, the Group has the discretion to apply the deposits to set off the outstanding loan amount which the Group owed to the Finance Company.

**2. *The Settlement Services***

The Finance Company would provide collection and payment services and other relevant clearing and settlement services for the member(s) of the Group free of charge.

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## LETTER FROM THE BOARD

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### 3. *The Loan and Guarantee Services*

Subject to the compliance of other applicable laws and regulations, the internal compliance and approval of the Finance Company and the entering of definitive agreement, the Finance Company would provide the Loan and Guarantee Services to the member(s) of the Group in aggregate amount of RMB1,070,000,000 with the following breakdown:

- (a) loan amount: RMB300,000,000, where each loan has a maximum term of 12 months;
- (b) acceptance bill: RMB10,000,000;
- (c) bill discounting: RMB50,000,000;
- (d) letter of guarantee: RMB10,000,000, where each letter of guarantee has a maximum term of 12 months;
- (e) guarantee amount: RMB200,000,000; and
- (f) project loan: RMB500,000,000.

Subject to the compliance of other applicable laws and regulations, the Finance Company warrants to charge interests and/or fees for the above services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging. Upon granting of the relevant amount, the Finance Company can request the Company and/or its affiliates to provide corporate guarantees, floating charges over certain assets as collateral, fixed charges over certain assets as collateral or negative pledging over certain assets as collateral. However, the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the relevant loan amounts.

### 4. *The Other Financial Services:*

Subject to the entering of definitive agreement, the Finance Company would also provide advisory, analytical and planning services in relation to: financial management, investments and fund raising, merger and acquisition, and assets and debts reorganization. The level of charges for the above services would be in compliance with the PBOC and the CBRC's guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group.

### **Condition Precedents:**

The taking effect of the Financial Services Agreement is conditional upon the Independent Shareholders' approval of (i) the Financial Services Agreement; and (ii) the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM. If the above condition is not fulfilled on or before 31 October 2016 (or such later date as may be agreed between the parties), the Financial Services 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.

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## LETTER FROM THE BOARD

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### PROPOSED ANNUAL CAPS IN RESPECT OF THE LOAN AND GUARANTEE SERVICES AND THE DEPOSIT SERVICES

The Company proposed the annual caps for (i) the service fees payable (including interests payable, where applicable) by the Group to the Finance Company in relation to the Loan and Guarantee Services from the Effective Date to 31 December 2018; and (ii) the maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Group with the Finance Company in relation to the Deposit Services from the Effective Date to 31 December 2018 are as follow:

	<b>From Effective Date to 31 December 2016 (RMB)</b>	<b>From 1 January 2017 to 31 December 2017 (RMB)</b>	<b>From 1 January 2018 to 31 December 2018 (RMB)</b>
The Loan and Guarantee Services	1,070,000,000	1,070,000,000	1,070,000,000
The Deposit Services	250,000,000	250,000,000	250,000,000

The Group never conducted any transactions with the Finance Company similar to those under the Loan and Guarantee Services and the Deposit Services.

#### **Basis of the Proposed Annual Caps:**

##### *The Loan and Guarantee Services:*

The proposed annual caps were determined after taking into account of the total loans and guaranteed amount serviced by independent third party to the Group as at 30 June 2015 of approximately HK\$500 million and the existing business' potential funding requirement.

The Company plans to use part of the aggregate loan facility and the internal resources of the Group to repay the loans serviced by independent third party to the Group of approximately HK\$500 million as at 30 June 2015 (or approximately HK\$477 million as at 31 December 2015 as stated in the audited consolidated financial statement for the year ended 31 December 2015 of the Company). In addition, the Company plans to employ a portion of the loan facility to finance projects of the Group, which the total required capital expenditure is presently estimated at approximately RMB105 million.

The Company considers that the setting of the annual caps of the aggregate loan facility exceed the aggregated amount of: (i) the repayment of loans of approximately HK\$477 million; and (ii) the current estimated capital expenditure for projects of the Group of approximately RMB\$105 million, would provide extra working capital to the Group as contingency for unexpected situation. Currently the Group has no commitment or intention to draw down the full amount under the current proposed annual caps. Furthermore, under the terms of the Financial Services Agreement, there is no additional cost or any adverse effect to the Group, either to accept a level of the relevant proposed annual caps which exceed the Group's prevailing expected funding need, nor not fully utilizing the aggregate loan facility under the relevant proposed annual caps. Therefore, the Company believes that it is in the interests of the Group to accept the loan facility at the current level of the relevant proposed annual caps.

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## LETTER FROM THE BOARD

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### *The Deposit Services:*

The proposed annual caps for the Deposit Services were determined after taking into account of the bank balance and cash on hand of the Group as at 30 June 2015 and 31 December 2015 of approximately HK\$192.6 million and approximately HK\$136.20 million, respectively.

The Group is not under any obligation to place deposits with the Finance Company pursuant to the Financial Services Agreement.

The Company considers that the setting of annual caps for the Deposit Services higher than the bank balance and cash on hand of the Group so as to accommodate the possible drawn down of the loan facility to be provided by the Finance Company which could be temporarily deposited in the relevant bank accounts under the Deposit Services, and have also taken into account of the expected cashflow to be generated from the operations of the Group.

### **INTERNAL CONTROL**

The followings will be adopted by the Company to ensure that the Continuing Connected Transactions will be conducted in accordance with the terms under the Financial Services Agreement and on normal commercial terms and in the interests of the Company and the Shareholders as a whole and in compliance with the GEM Listing Rules:

- (a) in respect of the Deposit Services under the Financial Services Agreement to be employed by the Group, the personnel in the finance department of the Group in the PRC is/are responsible for the comparing of the rate(s) offered by the Finance Company against the deposit rate(s) announced by the PBOC, and further against the deposit rate(s) offered by at least three major commercial banks in the PRC, to confirm the rate(s) offered by the Finance Company are not less favorable to the Group, which all of these information together with the daily deposit amount (with the corresponding accrued interests) will be included in a report to be submitted to the chief financial officer of the Group for review, verification and approval. The approved report will then be submitted to the finance department of the Company in Hong Kong for second review and records. Through the above control procedures, it will ensure the rates and terms offered to member(s) of the Group for the Deposit Services are in compliance with the terms and conditions under the Financial Services Agreement and can monitor the aggregate daily deposit amount (with the corresponding accrued interests) with the Finance Company by the Group not exceeding the relevant proposed annual caps; and
- (b) in respect of the Loans and Guarantee Services under the Financial Services Agreement to be employed by the Group, the personnel in finance department of the Group in PRC is/are responsible for comparing the interests and/or fees charged by the Finance Company with interests and/or fees charged by at least three major commercial banks or financial institutions in the PRC, to confirm the interests and/or fees charged by the Finance Company more favorable to the Group, which all of these information together with the aggregate loan and guarantee amount (including interests and/or fees payable, where applicable) will be included in a report to be submitted to the chief financial officer of the Group for review, verification and approval. The approved report will then be submitted to the finance department of the

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## LETTER FROM THE BOARD

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Company in Hong Kong for second review and records. Through the above control procedures, it will ensure the rates and terms offered to member(s) of the Group for the Loan and Guarantee Services are in compliance with the terms and conditions under the Financial Services Agreement and the aggregate loan and guarantee does not exceed the relevant proposed annual caps. The report will also include the information about net asset value of the asset(s) to be provided by member(s) of the Group as collateral which will be reviewed to ensure the collateral provided is also in line with the relevant loan amounts.

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

The Financial Services Agreement entered into by the respective parties is in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors after taking into account the advice of Hooray Capital) considered that:

1. the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits, are on equal or better terms than those available from independent third parties;
2. the collection and payment services and other relevant clearing and settlement services provided by the Finance Company to the member(s) of the Group are free of charge, which the Company could benefit from;
3. the Finance Company warrants to charge interests and/or fees in respect of the Loan and Guarantee Services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging, which the Company would benefit from;
4. the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the relevant loan amounts, which is fair and reasonable;
5. the level of charges in respect of the Other Financial Services provided by the Finance Company would be in compliance with the PBOC and the CBRC's guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group, which is fair and reasonable; and
6. the deposit services and financing services provided by independent third parties in preceding years and the services under the Deposit Services and the Loan and Guarantee Services to be provided by the Finance Company are similar in nature. In addition, the Deposit Services and the Loan and Guarantee Services to be employed by the Group under the Financial Services Agreement are for its daily operation, which are in the ordinary and usual course of business of the Group.

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## LETTER FROM THE BOARD

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In view of the above, the Directors (including the independent non-executive Directors after taking into account the advice of the Hooray Capital) considered that the terms of the Financial Services Agreement are on normal commercial terms and on terms equal to or better than those available from independent third parties under the prevailing local market conditions. The Financial Services Agreement and the related proposed annual caps are fair and reasonable, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

None of the Directors has any interest in the transactions contemplated under the Financial Services Agreement. However, as Mr. Liu Dajun, Mr. Zang Yiran, Mr. Zhao Youmin and Mr. Daiqi were nominated by CECEP as Directors, for the sake of good corporate governance as well as to avoid any potential conflict of interest, they voluntarily abstained from voting on the Board resolutions in relation to the Financial Services Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the “Letters from the Independent Board Committee” and “Letter from Hooray Capital” and their respective recommendations set out on pages 13 and pages 14 to 27 of this circular, respectively.

### INFORMATION ON CECEP AND THE FINANCE COMPANY

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.

The Finance Company is incorporated in the PRC and is a wholly owned subsidiary of CECEP. It holds a Financial Permit (金融許可證) issued by the CBRC. Under the applicable laws and regulations, the Finance Company is permitted to, inter alia, receiving deposit(s) from, lending to and providing associate financial services to: (i) CECEP and/or CECEP’s subsidiaries and/or any of the business unit or corporation of CECEP and/or its subsidiaries; (ii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is not less than 20%; (iii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is less than 20% but is the single largest shareholder of the relevant company.

The scope of business of the Finance Company includes: the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; provision of guarantees to member companies and dealing with entrusted loans among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; provision of loans and finance leasing services to member companies; provision of intra-group funds transfer and settlement services to member companies.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE GROUP

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.

### GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. The Finance Company is a wholly owned subsidiary of CECEP and therefore is a connected person of the Company.

Deposits made by member(s) of the Group to the Finance Company represents financial assistance provided by such member(s) to a connected person pursuant to Rule 20.22 (4) of the GEM Listing Rules. Given the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the proposed annual caps for the Deposit Services under the Financial Services Agreement exceeds 25% but are less than 100%, the Deposit Services will constitute a major and continuing connected transaction on the part of the Company pursuant to Chapter 19 and 20 of the GEM Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements.

The Loan and Guarantee Services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement will be subject to security over asset(s) of the Group (where applicable) which will be pledged in respect of each loan in favor of the Finance Company. Pursuant to Rule 20.88 of the GEM Listing Rules, the Loan and Guarantee Services will constitute a continuing connected transaction on part of the Company and is subject to the reporting, announcement, annual review and Independent Shareholders' approval accordingly.

As the applicable percentage ratios of the total fees payable by the Company to the Finance Company in respect of the Other Financial Services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 20 of the GEM Listing Rules, the Other Financial Services will be fully exempt from the reporting, announcement, annual review, and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above, the Company will seek the Independent Shareholders' approval for the applicable transactions under the Financial Services Agreement, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

As at the Latest Practicable Date, CECEP (HK) and its associates are interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company, will abstain from voting on the resolution(s) approving the Financial Services Agreement and the relevant proposed

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## LETTER FROM THE BOARD

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annual caps at the EGM. To the best knowledge, information and belief of the Directors, no Shareholder (excluding CECEP (HK) and its associates) are required to abstain from voting on the resolution(s) approving the Financial Services Agreement and the related proposed annual caps at the EGM.

### EXTRAORDINARY GENERAL MEETING

A notice convening the EGM is set out on pages 38 to 39 of this circular, ordinary resolution(s) will be proposed to approve the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018.

A proxy form for use at the EGM is enclosed with this circular. Whether or not a Shareholder intend to attend the EGM in person, such Shareholder is requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for holding of the EGM (or any adjournment thereof).

Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the EGM (or any adjournment thereof) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll.

### RECOMMENDATION

The Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) considers that the Financial Services Agreement and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and no less favourable to the Group than those of independent third parties and in the interests of the Company and the Shareholders as a whole, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 for the Continuing Connected Transactions are fair and reasonable. Accordingly, the Board (including the Independent Board Committee having taken into account the advice of Hooray Capital) recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018.

Yours faithfully,  
For and on behalf of  
**China Ground Source Energy Industry Group Limited**  
**Liu Dajun**  
*Joint Chairman & Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

13 May 2016

*To the Independent Shareholders*

Dear Sir or Madam,

### **MAJOR AND CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the transactions under the Financial Services Agreement, the Continuing Connected Transactions and the proposed annual caps relating thereto, details of which are set out in the “Letter from the Board” to the circular dated 13 May 2016 (the “**Circular**”) to the Shareholders, of which this letter forms a part. Terms defined in the Circular shall have the same meaning when used in this letter unless otherwise requires.

We (i) have reviewed the terms of the Financial Service Agreement which we are of view that such terms are principally in line with market practices; (ii) consider the fact that the Finance Company is governed by the CBRC and is subject to its satisfaction of the rules and operational requirements (which includes the compliance of the terms of Financial Services Agreement and the performance of the Financial Services Agreement by the Finance Company); (iii) are in the opinion that the deposit and financing services provided by independent third parties in preceding years or to be provided by the Finance Company are similar in nature, which are for the Group’s daily operation; and (iv) took into account the advice of Hooray Capital, we consider that the transactions under the Financial Services Agreement, the Continuing Connected Transactions and the proposed annual caps relating thereto are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, in the ordinary and usual course of business and in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the transactions under the Financial Services Agreement, the Continuing Connected Transactions and the proposed annual caps relating thereto.

Yours faithfully,

For and on behalf of

**the Independent Board Committee**

**Mr. Jia Wenzeng**

**Mr. Wu Desheng**

**Mr. Zhang Honghai**

*Independent non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter from Hooray Capital setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 and other matters contemplated thereunder, which has been prepared for the purpose of inclusion in this circular:*



13 May 2016

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### MAJOR AND CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018. Details of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 are contained in the "Letter from the Board" as set out in the circular of the Company dated 13 May 2016 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 24 March 2016 (after trading hours), the Company entered into the Financial Services Agreement with the Finance Company whereby the Finance Company has conditionally agreed to provide the Deposit Services, the Settlement Services, the Loan and Guarantee Services and the Other Financial Services to the member(s) of the Group, subject to the terms and conditions provided therein for the period commencing from the Effective Date to 31 December 2018. The proposed annual caps for relevant services shall not be more than the amounts prescribed as set out in the "Letter from the Board" of the Circular.

As at the date of this letter, CECEP (through its wholly-owned subsidiary CECEP (HK)) is a substantial Shareholder and is interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company. The Finance Company is a wholly owned subsidiary of CECEP and therefore is a connected person of the Company.

Deposits made by member(s) of the Group to the Finance Company represents financial assistance provided by such member(s) to a connected person pursuant to Rule 20.22 (4) of the GEM Listing Rules. Given the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the proposed annual caps for the Deposit Services under the Financial Services Agreement exceeds 25% but are less than

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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100%, the Deposit Services will constitute a major and continuing connected transaction on the part of the Company pursuant to Chapter 19 and 20 of the GEM Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements.

The Loan and Guarantee Services to be provided by the Finance Company to the member(s) of the Group under the Financial Services Agreement will be subject to security over asset(s) of the Group (where applicable) which will be pledged in respect of each loan in favor of the Finance Company. Pursuant to Rule 20.88 of the GEM Listing Rules, the Loan and Guarantee Services will constitute a continuing connected transaction on part of the Company and is subject to the reporting, announcement, annual review and Independent Shareholders' approval accordingly.

As the applicable percentage ratios of the total fees payable by the Company to the Finance Company in respect of the Other Financial Services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 20 of the GEM Listing Rules, the Other Financial Services will be fully exempt from the reporting, announcement, annual review, and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

In light of the above, the Company will seek the Independent Shareholders' approval for the applicable transactions under the Financial Services Agreement, and the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

As at the Latest Practicable Date, CECEP (HK) and its associates are interested in 850,000,000 Shares, representing approximately 29.55% of the total issued share capital of the Company, will abstain from voting on the resolution(s) approving the Financial Services Agreement and the related proposed annual caps at the EGM. To the best knowledge, information and belief of the Directors, no Shareholder (excluding CECEP (HK) and its associates) are required to abstain from voting on the resolution(s) approving the Financial Services Agreement and the related proposed annual caps at the EGM.

### **The Independent Board Committee**

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai, has been formed to advise the Independent Shareholders as to in respect of the fairness and reasonableness on the terms under the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018. We, Hooray Capital, have been appointed to give independent opinions to the Independent Board Committee and the Independent Shareholders as to whether the Continuing Connected Transactions are conducted in the ordinary and usual course of business, the terms under the Financial Services Agreement are on normal commercial terms, and the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018 are fair and reasonable, so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and whether the Independent Shareholders should vote in favor of the approval of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018. Our appointment has been approved by the Independent Board Committee.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company pursuant to Rule 17.96 of the GEM Listing Rules. We have not acted as the independent financial adviser for the Company's other transactions in the past two years. We are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our appointment as the independent financial adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider that we are eligible to give independent advice on the terms of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018.

### BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management. We have assumed that all information, facts, representation, opinions and statements made or referred to in the Circular were true, accurate and complete in all material aspects as at the Latest Practicable Date and will remain so up to the date of the EGM, and the Company will notify the Shareholders and the general public of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on such information. We, however, have not conducted any independent investigation or audit into the businesses, affairs, financial position or the future prospects of any members of the Group and the related subject of, and parties to, the Financial Services Agreement, nor have we carried out any independent verification of the information supplied. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion stated hereinunder.

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

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether to approve of the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018, and save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the Financial Services Agreement, the Continuing Connected Transactions and the related proposed annual caps for the period from the Effective Date to 31 December 2018, we have taken into account the principal factors and reasons as set out below:

#### 1. Background of the Group

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.

#### 2. Background of CECEP and the Finance Company

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.

The Finance Company is incorporated in the PRC and is a wholly owned subsidiary of CECEP. It holds a Financial Permit (金融許可證) issued by the CBRC. Under the applicable laws and regulations, the Finance Company is permitted to, inter alia, receiving deposit(s) from, lending to and providing associate financial services to: (i) CECEP and/or CECEP's subsidiaries and/or any of the business unit or corporation of CECEP and/or its subsidiaries; (ii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is not less than 20%; (iii) associate companies held by CECEP and/or its subsidiaries where the aggregate shareholding is less than 20% but is the single largest shareholder of the relevant company.

The scope of business of the Finance Company includes: the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; provision of guarantees to member companies and dealing with entrusted loans among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; provision of loans and finance leasing services to member companies; provision of intra-group funds transfer and settlement services to member companies.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Principal Terms of the Financial Services Agreement

Pursuant to the terms under the Financial Services Agreement, the Finance Company agreed to provide the member(s) of the Group the following services from the Effective Date to 31 December 2018:

<b>Financial Services</b>	<b>Principal Terms</b>
1. The Deposit Services	The Finance Company would provide, inter alia, demand deposit, saving deposit, notice deposit and agreed deposit. The interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits. In the event the Finance Company cannot repay the deposits on demand, the Group has the discretion to apply the deposits to set off the outstanding loan amount which the Group owned to the Finance Company.
2. The Settlement Services	The Finance Company would provide collection and payment services and other relevant clearing and settlement services for the member(s) of the Group free of charge.
3. The Loan and Guarantee Services	<p>Subject to the compliance of other applicable laws and regulations, the internal compliance and approval of the Finance Company and the entering of definitive agreement, the Finance Company would provide the Loan and Guarantee Services to the member(s) of the Group in aggregate amount RMB1,070,000,000 with the following breakdown:</p> <ul style="list-style-type: none"><li>(a) loan amount: RMB300,000,000, where each loan has a maximum term of 12 months;</li><li>(b) acceptance bill: RMB10,000,000;</li><li>(c) bill discounting: RMB50,000,000;</li><li>(d) letter of guarantee: RMB10,000,000, where each letter of guarantee has a maximum term of 12 months;</li><li>(e) guarantee amount: RMB200,000,000; and</li><li>(f) project loan: RMB500,000,000.</li></ul>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Financial Services

### Principal Terms

Subject to the compliance of other applicable laws and regulations, the Finance Company warrants to charge interests and/or fees for the above services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging. Upon granting of the relevant amount, the Finance Company can request the Company and/or its affiliates to provide corporate guarantees, floating charges over certain assets as collateral, fixed charges over certain assets as collateral or negative pledging over certain assets as collateral. However, the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the relevant loan amounts.

4. The Other Financial Services:

Subject to the entering of definitive agreement, the Finance Company would also provide advisory, analytical and planning services in relation to: financial management, investments and fund raising, merger and acquisition, and assets and debts reorganization. The level of charges for the above services would be in compliance with the PBOC and the CBRC's guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group.

The taking effect of the Financial Services Agreement is conditional upon the Independent Shareholders' approval of: (i) the Financial Services Agreement; and (ii) the related proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

Given that the terms under the Loan and Guarantee Services and the Deposit Services are well governed by, inter alia, regulations set out by the CBRC, and the collaterals provided by the Group under the Loan and Guarantee Services will be in line with and not exceed the relevant loan amounts, we are of view that the financial services provided under the Financial Services Agreement are on normal commercial terms and are fair and reasonable, and the entering of the Financial Services Agreement (of which includes the acceptance and utilization of the Loan and Guarantee Services and the Deposit Services) is in the interest of the Company and Shareholders as a whole.

#### 4. Market Practices

We have reviewed the Financial Services Agreement and compared the principal terms thereunder in relation to the deposit services and financing services with those of similar transactions entered into by other two companies whose shares are listed on the Stock Exchange.

In our findings, we noticed that:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*In relation to the deposit services:*

- (a) the interest rates for deposits and borrowings are set (i) that in the case of deposits with reference to or not less than, and that in the case of borrowing with reference to or not higher than, the relevant benchmark rates set by the PBOC; and (ii) at the level no less favourable than those offered by independent commercial banks to the respective companies; and
- (b) the terms thereunder are in standard commercial terms, of which are principally the same as the terms under the Financial Services Agreement in relation to Deposit Services.

As a result, we are of view that the terms in relation to the Deposit Services under the Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

*In relation to the financing services:*

Despite neither of the relevant loans of the two referenced companies required the pledging of their respective asset as collateral, respectively, under the Financial Services Agreement the net asset value of the asset(s) to be provided by the Group as collateral under the Loan and Guarantee Services shall only be in line with the relevant loan amounts. Given that no excess amount of collateral would be required over the amount of loans or guaranteed provided under the Financial Services Agreement, we are of view that such arrangement is also fair and reasonable so far as the Independent Shareholders are concerned.

Thus, we are of view the entering of the Financial Services Agreement are in the ordinary and usual course of business of the Group so far as the Independent Board Committee and Independent Shareholders are concerned.

### **5. Proposed annual caps for the Loan and Guarantee Services and the Deposit Services**

The Company proposed the annual caps for (i) the service fees payable (including interests payable, where applicable) by the Group to the Finance Company in relation to the Loan and Guarantee Services from the Effective Date to 31 December 2018; and (ii) the maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Group with the Finance Company in relation to the Deposit Services from the Effective Date to 31 December 2018 are as follow:

	<b>From Effective Date to 31 December 2016 (RMB)</b>	<b>From 1 January 2017 to 31 December 2017 (RMB)</b>	<b>From 1 January 2018 to 31 December 2018 (RMB)</b>
The Loan and Guarantee Services	1,070,000,000	1,070,000,000	1,070,000,000
The Deposit Services	250,000,000	250,000,000	250,000,000

According to the Company, the Group never conducted any transactions with the Finance Company similar to those under the Loan and Guarantee Services and the Deposit Services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Basis of the Proposed Annual Caps

Pursuant to our understanding with the management of the Company, the proposed annual caps for the Loan and Guarantee Services and the Deposit Services for the period from the Effective Date to 31 December 2018, respectively, were determined after taking into account of the followings:

*In respect of the Loan and Guarantee Services:*

The proposed annual caps were determined after taking into account of the total loans and guaranteed amount serviced by independent third party to the Group as at 30 June 2015 of approximately HK\$500 million and the existing business' potential funding requirement.

We are advised that the Company plans to use part of the aggregate loan facility and the internal resources of the Group to repay the loans serviced by independent third party to the Group of approximately HK\$500 million as at 30 June 2015 (or approximately HK\$477 million as at 31 December 2015 as stated in the audited consolidated financial statements for the year ended 31 December 2015 of the Company). In addition, the Company plans to employ a portion of the loan facility to finance projects of the Group, which the total required capital expenditure is currently estimated at approximately RMB105 million.

We had enquired the management of the Company and were given the understanding that the setting of the annual caps of the aggregate loan facility exceed the aggregated amount of: (i) the repayment of loans of approximately HK\$477 million; and (ii) the current estimated capital expenditure for financing projects of the Group of approximately RMB\$105 million, would provide extra working capital to the Group as contingency for unexpected situation. There is no obligation or commitment for the Group to utilize the amount under the proposed annual caps in respect of the Loan and Guarantee Services in full. The Group currently has no commitment or intention to draw down the full amount under the current proposed annual caps. In addition, there is no cost incurred to the Group in relation to the acceptance of the Loan and Guarantee Services and no charge to the Group whatsoever in relation to the unused loan facility under the Loan and Guarantee Services to be granted by the Finance Company. Furthermore, there is no additional cost or adverse effect to the Group for committing into an amount that exceeds the Group's current expected funding needs. Therefore, the Company believes that it is in the interests of the Group to accept the aggregate loan facility at the current level of the relevant annual caps.

Given that (i) the Group obtained entrusted loans in the principal amount of approximately RMB400,000,000 (equivalent to approximately HK\$477,326,000) from an independent third party which the maturity of such loans will fall onto a date by the end of September 2016; (ii) the current estimated required capital expenditure of approximately RMB105 million for carrying out projects of the Group (as advised by the Company); (iii) the confirmation which we received from the Company that the bank balance and cash on hand of the Group as at 31 March 2016 was approximately HK\$202 million; (iv) the balance between the proposed annual caps in respect of the Loan and Guarantee Services and the aggregated expected financial needs of the Group, are for contingency purposes; (v) there is no obligation or commitment for the Group to utilize the amount under the proposed annual caps in respect of the Loan and Guarantee Services in full; and (vi) there is no cost incurred to the Group in relation to the acceptance of the Loan and Guarantee Services and no charge to the Group whatsoever in relation to the unused loan facility under the Loan and Guarantee Services to be granted by the Finance Company, we consider that the relevant proposed annual caps under the Loan and Guarantee Services which is more than the current expected utilization amount, is justifiable

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and is in the interests of the Group as a whole. Thus, we are of view that the proposed annual caps for the period from the Effective Date to 31 December 2018 in respect of the Loan and Guarantee Services are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned and is in the interest of the Company and Shareholders as a whole.

*In respect of the Deposit Services:*

The proposed annual caps for the Deposit Services were determined after taking into account of the bank balance and cash on hand of the Group as at 30 June 2015 and 31 December 2015 of approximately HK\$192.6 million and approximately HK\$136.20 million, respectively.

The Group is not under any obligation to place deposits to the Finance Company pursuant to the Financial Services Agreement.

We are advised that the Company considers that the setting of annual caps for the Deposit Services higher than the bank balance and cash on hand of the Group so as to accommodate the possible drawn down of the loan facility to be provided by the Finance Company which could be temporarily deposited in the relevant bank accounts under the Deposit Services, and have also taken into account of the expected cash flow to be generated from the operations of the Group.

Having considered that (a) the bank balance and cash on hand of the Group for the year ended 31 December 2015 was in the range of approximately HK\$122 million and HK\$294 million; (b) the Group is not obliged to place deposits with the Finance Company; (c) the Company's anticipation of the possible drawn down of the loan facility to be provided by the Finance Company to support projects of the Group; and (d) the Company's expectation of its cash flow to be generated from the operations of the Group, we concur with the Company that the proposed annual caps in respect of the Deposit Services for the period from the Effective Date to 31 December 2018 are fair and reasonable so far as the Independent Board Committee and Independent Shareholders are concerned and is in the interest of the Company and Shareholders as a whole.

### **7. Internal Control**

We are advised by the Company that the Group will adopt internal control measures to ensure the Continuing Connected Transactions will be conducted in accordance with the terms under the Financial Services Agreement and on normal commercial terms and in the interests of the Company and the Shareholders as a whole and in compliance with the GEM Listing Rules. For details, please refer to the section headed "Internal Control" in the "Letter from the Board".

We have reviewed and discussed with the management of the Company the internal control measures which we are of view that such measures are appropriate to safeguard the interest of the Company and Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 8. Reasons for and benefits of entering into the Financial Services Agreement

As stated in the “Letter from the Board”, the Financial Services Agreement entered into between the Company and the Finance Company is in the ordinary and usual course of business of the Group. The Directors have considered the following aspects:

1. the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company shall not be lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits, are on equal or better terms than those available from independent third parties;
2. the collection and payment services and other relevant clearing and settlement services provided by the Finance Company to the member(s) of the Group are free of charge, which the Company could benefit from;
3. the Finance Company warrants to charge interests and/or fees in respect of the Loan and Guarantee Services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging, which the Company would benefit from;
4. the net asset value of the asset(s) to be provided by the Group as collateral shall be in line with the relevant loan amounts, which is fair and reasonable;
5. the level of charges in respect of the Other Financial Services provided by the Finance Company would be in compliance with the PBOC and the CBRC’s guideline, and must not be higher than the lower amount of (i) the fee amounts charged by major commercial banks or financial institutions in the PRC; and (ii) the fee amounts which the Finance Company are charging to other affiliates other than the Group, which is fair and reasonable; and
6. the deposit services and financing services provided by independent third parties in preceding years and the services under the Deposit Services and the Loan and Guarantee Services to be provided by the Finance Company are similar in nature. In addition, the Deposit Services and the Loan and Guarantee Services to be employed by the Group under the Financial Services Agreement are for its daily operation, which are in the ordinary and usual course of business of the Group.

In assessing whether the Loan and Guarantee Services and the Deposit Services under the Financial Services Agreement are in the interests of the Company and the Shareholders as a whole, we have discussed with the management of the Company in relation to the aforesaid the Company’s reasons and benefits for

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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entering into the Financial Services Agreement which we concur with the view of the Directors. Furthermore, we have also considered the followings for assessing the reasonableness and fairness of the Loan and Guarantee Services and the Deposit Services under the Financial Services Agreement:

- A. the Finance Company is regulated by, inter alia, the CBRC. which the provision of financial services are in accordance with and in satisfaction of the rules and operational requirements of the relevant regulatory authorities in the PRC. As such, the utilization of the Loan and Guarantee Services and the Deposit Services provided by the Finance Company would not expose the Group to additional financial risk as compared to utilizing the same services provided by other banks or financial institutions in the PRC that are governed under same rule and operational requirements of the CBRC;
- B. the collateral(s) to be provided by the Group under the Loan and Guarantee Services will be in line with and not materially exceed the relevant loan amounts;
- C. the principal terms of the Financial Services Agreement in relation to the deposit services and financing services are similar to the other two referenced listed companies entered into transactions as the Loan and Guarantee Services and the Deposit Services of which we compared with;
- D. the balance between the proposed annual caps in respect of the Loan and Guarantee Services under the Financial Services Agreement and the aggregated expected financial needs of the Group, in accordance to the management of the Company, are for contingency purposes;
- E. there is no obligation or commitment for the Group to utilize the amount under the proposed annual caps in respect of the Loan and Guarantee Services in full;
- F. there is no cost incurred to the Group in relation to the acceptance of the Loan and Guarantee Services and no charge to the Group whatsoever in relation to the unused loan facility under the Loan and Guarantee Services to be granted by the Finance Company;
- G. the bank balance and cash on hand of the Group for the year ended 31 December 2015 was in the range between approximately HK\$122 million and HK\$294 million;
- H. the Group is not obliged to place deposits with the Finance Company;
- I. it is expected that the Finance Company may have better understanding of the operations of the Group since the Finance Company is a wholly owned subsidiary of CECEP, who is a substantial Shareholder, which should allow them to provide more favorable, diversified and flexible financial services to the Group as compared with the third-party commercial banks or financial institutions;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- J. pursuant to the terms under the Financial Services Agreement, the Group is not restricted to approach and/or to engage any bank or any financial institution to satisfy its financial services needs. Thus, the entering into the Financial Services Agreement could provide an additional option to the Group other than the existing financial service provider(s) and might encourage them to offer more competitive terms to the Group; and
- K. the Deposit Services and the Loan and Guarantee Services to be employed by the Group under the Financial Services Agreement are for its daily operation and the terms therein are in no material difference as compared with the deposit services and financing services provided by independent third parties in preceding years.

In light of the above, we concur with the view of the Company that the entering of the Financial Services Agreement and the utilization of the Loan and Guarantee Services and the Deposit Services are in the ordinary and usual course of business of the Group, and the terms under the Financial Services Agreement are normal commercial terms. As a result, we consider that the Continuing Connected Transactions and the proposed annual caps in respect of the Loan and Guarantee Services and the Deposit Services for the period from the Effective Date to 31 December 2018 are fair and reasonable so far as the Independent Board Committee and Independent Shareholder are concerned, and are in the interests of the Company and the Shareholders as a whole.

### **GEM LISTING RULES IMPLICATIONS**

Apart from reporting, announcement and Independent Shareholders' approval requirements as required pursuant to the GEM Listing Rules, the Loan and Guarantee Services and the Deposit Services under the Financial Services Agreement are subject to the annual review requirements under the Rules 20.53 to 20.57 of the GEM Listing Rules, in particular:

- (i) the independent non-executive Directors must review the Continuing Connected Transactions under the Financial Services Agreements every year and confirm in the annual report whether the transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the Financial Services Agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (ii) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
  - (i) have not been approved by the Board;
  - (ii) were not entered into, in all material respects, in accordance with the Financial Services Agreement governing the transactions; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) have exceeded the proposed annual caps in relation to the Loan and Guarantee Services and the Deposit Services, respectively.
- (iii) the Company will comply with all other relevant requirements under the GEM Listing Rules.

### RECOMMENDATION

Based on the aforementioned factors and having considered:

- (i) the interest rate(s) offered to the member(s) of the Group for their deposits with the Finance Company (not lower than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Group, for comparable deposits) are on equal or better terms than those available from independent third parties;
- (ii) the Finance Company warrants to charge interests and/or fees in respect of the Loan and Guarantee Services at levels which are more favorable to the Group as compared to major commercial banks or financial institutions in the PRC are offering or charging;
- (iii) the Finance Company is regulated by, inter alia, the CBRC, with strict compliance to the relevant rules and operational requirements, which represents no additional financial risk exposed by the Group as compared to utilizing the same services provided by other banks or financial institutions;
- (iv) the collaterals to be provided by the Group under the Loan and Guarantee Services will be in line with and not materially exceed the relevant loan amounts;
- (v) the principal terms of the Financial Services Agreement are similar to the other two referenced listed companies entered into transactions as the Loan and Guarantee Services and the Deposit Services of which we compared with;
- (vi) the balance between the proposed annual caps in respect of the Loan and Guarantee Services under the Financial Services Agreement and the aggregated expected financial needs of the Group, in accordance to the management of the Company, are for contingency purposes;
- (vii) there is no obligation or commitment for the Group to utilize the amount under the proposed annual caps in respect of the Loan and Guarantee Services in full;
- (viii) there is no cost incurred to the Group in relation to the acceptance of the Loan and Guarantee Services and no charge to the Group whatsoever in relation to the unused loan facility under the Loan and Guarantee Services to be granted by the Finance Company;
- (ix) the bank balance and cash on hand of the Group for the year ended 31 December 2015 was in the range between approximately HK\$122 million and HK\$294 million;
- (x) the Group is not obliged to place deposits with the Finance Company;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (xi) it is expected that Finance Company could provide more favorable, diversified and flexible financial services to the Group as compared with other third-party financial service provider(s);
- (xii) the Group is not restricted to approach and/or to engage other third-party financial service provider(s) to satisfy its financial services needs and the entering into the Financial Services Agreement provides an additional option to the Group which might encourage competition(s) for providing competitive terms to the Group; and
- (xiii) internal control measures to be adopted by the Group as stated in the section headed “Internal Control” in the “Letter from the Board”,

we are of view that the terms of the Financial Services Agreement, the Continuing Connected Transactions and the proposed annual caps for the period from the Effective Date to 31 December 2018 are fair and reasonable, and the entering into such agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Financial Services Agreement, the Continuing Connected Transactions and the proposed annual caps for the period from the Effective Date to 31 December 2018 at the EGM.

Yours faithfully,  
For and on behalf of  
**Hooray Capital Limited**  
**Simon Ng**  
*Director*

*Mr. Simon Ng is a licensed person under the SFO to engage in, inter alia, Type 6 (advising on corporate finance) regulated activity and has over 17 years of experience in investment banking and corporate finance.*

**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in the following documents which have been published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and of the Company ([www.cgsenergy.com.hk](http://www.cgsenergy.com.hk)):

- From page 31 to 39 of the Company's annual report for the year ended 31 December 2015 published on 1 April 2016, which can be found at: below:(<http://www.hkexnews.hk/listedco/listconews/GEM/2016/0401/GLN20160401067.pdf>);
- From page 35 to 43 of the Company's annual report for the year ended 31 December 2014 published on 31 March 2015, which can be found at: (<http://www.hkexnews.hk/listedco/listconews/GEM/2015/0331/GLN20150331149.pdf>); and
- From page 29 to 36 of the Company's annual report for the year ended 31 December 2013 published on 31 March 2014, which can be found at: (<http://www.hkexnews.hk/listedco/listconews/GEM/2014/0331/GLN20140331179.pdf>).

**2. INDEBTEDNESS STATEMENT**

As at the close of business on 31 March 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group incurred an unsecured interest-bearing loan of RMB400,000,000. Save as aforesaid or as otherwise disclosed herein, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits, or any guarantees, or any other contingent liabilities outstanding.

**3. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL**

The Directors, after due and careful enquiry, taking into account the financial resources available to the Group, including the existing cash and bank balances, internally generated funds and the available banking facilities, are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

**4. EFFECT OF THE CONTINUING CONNECTED TRANSACTIONS TOWARDS THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP**

Given the nature of the Continuing Connected Transactions, the Company does not expect there will be any significant adverse effect on the earnings and assets and liabilities of the Group.

**5. FINANCIAL AND TRADING PROSPECTS**

In 2015, against the sluggish economic backdrop in the world and the downturn risk in Chinese economy, the Company has made unremitting efforts toward rapid expansion of intelligent heating (combustion-free and ground energy-based) for buildings, by further solidifying foundations, continuously

improving business modalities and constantly refining development route. In the past one year, the Company has been improving our product series and business modalities in correspondence to new update of market needs, and achieved steady growth and business expansion.

Looking into the future, the Company will continue to let technological innovation lead the way to growth. To boost internal capacity building of the company, the Company will keep on to its code of conduct for employees, putting working safety at the priority and industrial standards at the core to further consolidate basis and reinforce performance-based practices. In terms of external development, the Company will continue to closely follow market update and seize the current opportune chance to enlarge its market share in integrated heating and cooling sector by upgrading and refining its operation modes and promote energy revolution in building heating industry by expanding the application of shallow ground source energy.

**(I) RESPONSIBILITY STATEMENT**

This circular, for which the Directors 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 circular 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 circular misleading.

**(II) DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE**

As at the Latest Practicable Date, the interests and short positions held by the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

**(a) Long Positions and Short Positions in Shares and Equity Derivatives**

Name of Director	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity			Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares	Approximate percentage of interests in the Shares	Interests under equity derivatives		
Ms. Chan Wai Kay Katherine (Note 1)	Beneficial owner	41,636,000 (L)	1.45%	24,500,000 (L)	76,210,000 (L)	2.65%
	Interest of spouse	10,074,000 (L)	0.35%			
Mr. Xu Shengheng (Note 2)	Beneficial owner	508,319,000 (L)	17.67%	22,584,000 (L)	531,605,000 (L)	18.48%
	Beneficial owner	508,300,000 (S)	17.67%	-	508,300,000 (S)	17.67%
	Interest of spouse	702,000 (L)	0.02%	-		
Mr. Jia Wenzeng (Note 3)	Beneficial owner	-	-	3,000,000 (L)	3,000,000 (L)	0.10%
Mr. Wu Desheng (Note 4)	Beneficial owner	-	-	1,500,000 (L)	1,500,000 (L)	0.05%

(L): Long position, (S): Short position

*Notes:*

1. Ms. Chan Wai Kay Katherine (“**Ms. Chan**”) is interested in 41,636,000 shares and 24,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section and Mr. Chow Ming Joe Raymond (“**Mr. Chow**”), spouse of Ms. Chan, holds 10,074,000 Shares. Under the SFO, Ms. Chan is deemed to be interested in 10,074,000 Shares in which Mr. Chow is interested.
2. Mr. Xu Shengheng (“**Mr. Xu**”) is interested in 508,319,000 Shares and 22,584,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section. Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu, holds 702,000 Shares. Therefore, under the SFO, Mr. Xu is deemed to be interested in 702,000 Shares in which Ms. Luk is interested.
3. Mr. Jia Wenzeng is interested in 3,000,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.
4. Mr. Wu Desheng is interested in 1,500,000 Shares issuable pursuant to exercise of share options of the Company, details of such share options can be referred to part (b) of this section.

**(b) Long Positions under Equity Derivatives***The Share Option Plan*

On 28 July 2010, the Company, by a shareholders’ resolution, conditionally adopted a new share option scheme (the “**Share Option Plan**”) for a period of ten years from the date on which the Share Option Plan became unconditional. On 7 August 2010, the Share Option Plan became unconditional and effective. Pursuant to the Share Option Plan, the board of directors was authorised, at its absolute discretion, to grant options to eligible participants, including directors of the Company or any of its subsidiaries, as defined in accordance with the terms of

the Share Option Plan, to subscribe for shares in the Company under the terms of the Share Option Plan. As at Latest Practicable Date, the following Directors were interested in the following options under the Share Option Plan:

Name of Director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options outstanding as at Latest Practicable Date
Ms. Chan Wai Kay Katherine	9 September 2010 11 August 2014	9 September 2010 to 8 September 2020	0.426	17,000,000
		11 August 2015 to 10 August 2016	0.455	7,500,000
Mr. Xu Shengheng	9 September 2010 11 August 2014	9 September 2010 to 8 September 2020	0.426	11,600,000
		11 August 2014 to 10 August 2016	0.455	5,492,000
		11 August 2015 to 10 August 2016	0.455	5,492,000
Mr. Jia Wenzeng	9 September 2010 11 August 2014	9 September 2010 to 8 September 2020	0.426	1,500,000
		11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000
Mr. Wu Desheng	11 August 2014	11 August 2014 to 10 August 2016	0.455	750,000
		11 August 2015 to 10 August 2016	0.455	750,000

Save as disclosed above, as at Latest Practicable Date, none of the directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

**(III) DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

**(IV) DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation), between any of the Directors or supervisors of the Company and any member of the Group.

**(V) COMPETITION AND CONFLICT OF INTERESTS**

As at the Latest Practicable Date, none of the Directors, the management Shareholders or substantial Shareholders or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

**(VI) INTERESTS DISCLOSEABLE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS' INTEREST**

So far as is known to the Directors, as at Latest Practicable Date, persons (other than directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

## Long Positions and Short Positions in Shares and Equity Derivatives

Name	Capacity	Number of issued ordinary shares of US\$0.01 each in the Company held and the capacity		Interests under equity derivatives	Aggregate interests	Approximate percentage of the aggregate interests
		Interests in the Shares	Approximate percentage of interests in the Shares			
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited (Note 1)	Beneficial owner	850,000,000 (L)	29.55%	-	850,000,000 (L)	29.55%
China Energy Conservation and Environmental Protection Group (Note 1)	Interest of controlled corporation	850,000,000 (L)	29.55%	-	850,000,000 (L)	29.55%
Ms. Luk Hoi Man (Note 2)	Beneficial owner	702,000 (L)	0.02%	-		
	Interest of spouse	508,319,000 (L)	17.67%	22,584,000 (L)	531,605,000 (L)	18.48%
	Interest of spouse	508,300,000 (L)	17.67%	-	508,300,000 (S)	17.67%

(L): Long position, (S): Short position

## Notes:

- China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited is a wholly-owned subsidiary of CECEP, therefore, under the SFO, CECEP is deemed to be interested in 850,000,000 Shares.
- Ms. Luk Hoi Man (“**Ms. Luk**”), the spouse of Mr. Xu Shengheng (“**Mr. Xu**”), holds 702,000 Shares. Mr. Xu is interested in 508,319,000 Shares and 22,584,000 Shares issuable pursuant to exercise of share options of the Company. Therefore, under SFO, Ms. Luk is deemed to be interested in 508,319,000 Shares and 22,584,000 underlying shares issuable upon the exercise of the share options of the Company in which Mr. Xu is interested.

Save as disclosed above, as at Latest Practicable Date, the Directors were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Company were made up.

## 8. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualification of the expert which has given its opinion or advice which is contained in this circular:

Name	Qualification
Hooray Capital Limited	a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Hooray Capital was not interested in any Shares or shares in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Hooray Capital did not have any direct or indirect interest in any asset which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Hooray Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which they respectively appear.

The letter and recommendation given by Hooray Capital is given as of the date of this circular for incorporation herein.

## 9. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or any of its subsidiaries which are or may be material:

- (a) On 21 January 2016, a share transfer agreement was entered into between the Company's indirect wholly owned subsidiary, Beijing Enterprises Ever Source Technology Development Co., Ltd.\*(北京北控恒有源科技發展有限公司) ("**Beijing Ever Source**") and Beijing Sibolian General Mechanical New Technology Company\*(北京市四博連通用機械新技術公司) ("**Sibolian**"), pursuant to which Beijing Ever Source agreed to purchase and Sibolian agreed to sell, the 5.387% equity interest in Ever Source Science and Technology Development Group Co., Ltd.\*(恒有源科技發展集團有限公司) at the consideration of RMB15,750,000 (equivalent to approximately HK\$18,900,000);
- (b) On 31 December 2014, a sale and purchase agreement was entered into between the Company's indirect wholly owned subsidiary, Hangzhou Ever Source Energy and Technology Ltd.\*(杭州恒有源能源科技有限公司) ("**HYY Hangzhou**", as purchaser), Hong Kong Goodway International Holdings Limited ("**HK Goodway**", as vendor), and Mr. Chen Zaixian (as guarantor), pursuant to which HYY Hangzhou agreed to purchase and HK

Goodway agreed to sell, the 100% equity interest in Goodway (Hangzhou) Biotechnology Ltd.\*(嘉德威(杭州)生物科技有限公司) (“**Hangzhou Goodway**”) at the consideration of RMB93,000,000 (equivalent to approximately HK\$116,250,000), to indirectly acquire the land use rights of a piece of land located at No. 6 Zhuantang Science and Technology Economic Zone, Zhuantang Jie Dao, Xihu District, Hangzhou City, Zhejiang Province, the PRC and three blocks of industrial/ancillary office buildings were erected thereon with a total gross floor area of approximately 24,320 square meters held by Hangzhou Goodway; and

- (c) On 19 November 2014, a limited partnership agreement was entered into between the Company’s indirect wholly owned subsidiary, Ever Source Science and Technology Development Group Ltd.\*(恒有源科技發展集團有限公司) (“**HYY**”, as limited partner) and Beiguotou (Shanghai) Equity Investment Fund Management Co., Ltd.\*(北國投(上海)股權投資基金管理有限公司) (“**Beiguotou**”, as general partner), pursuant to which HYY and Beiguotou agreed to set up Shanghai Zhantian Investment Management Center (Limited Partnership)\* (上海展天投資管理中心(有限合伙)) in Shanghai, the PRC, primarily aim to improve the Group’s capital efficiency and to maximize the value of the fund assets through the professional management and use of fund assets by the general partner. HYY would contribute RMB100,000,000 (equivalent to approximately HK\$126,700,000) payable in cash and Beiguotou would contribute RMB100,000 (equivalent to approximately HK\$126,700) payable in cash.

## 10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

## 11. GENERAL

- (a) the registered office of the Company is at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands and the principal place of business of the Company in Hong Kong is at Units 3709-10, 37/F, The Centre, 99 Queen’s Road Central, Central, Hong Kong;
- (b) the principal place of business of CECEP is at Jieneng Mansion, No. 42 Xizhimen North Street, Haidian District, Beijing, PRC (中國北京市海澱區西直門北大街42號節能大廈);
- (c) the Hong Kong branch share registrar of the Company is Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong;
- (d) the company secretary of the Company is Ms. Wong Lai Yuk, an associate member of The Hong Kong Institute of Chartered Secretaries; and
- (e) in the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Units 3709-10, 37/F, The Centre, 99 Queen's Road Central, Central, Hong Kong during normal business hours up to and including the date of the EGM:

- (a) the articles of association of the Company;
- (b) the Financial Services Agreement;
- (c) the letter from Board, the text of which is set out in this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (e) the letter from Hooray Capital, the text of which is set out in this circular;
- (f) the consent letter of Hooray Capital as referred to in the section headed "Qualifications and Consent of Expert" in this Appendix II;
- (g) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix II;
- (h) the annual reports of the Company for the two financial years ended 31 December 2015; and
- (i) this Circular and the circular dated 5 April 2016 in relation to the granting of the general mandate and the repurchase mandate, the refreshment of scheme limit, the re-election of Directors.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of China Ground Source Energy Industry Group Limited (the “**Company**”) will be held at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 30 May 2016 at 11:30 a.m. (or immediately following the conclusion of the annual general meeting of the Company at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 30 May 2016 at 11:00 a.m., whichever is later) for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company:

### **ORDINARY RESOLUTIONS**

**“THAT:**

- (a) the agreement (the “**Financial Services Agreement**”) dated 24 March 2016 entered into between the Company (on behalf of its subsidiaries) and China Energy Finance Company Limited\* (the “**Finance Company**”) (as service provider) pursuant to which the Finance Company agreed to provide the Company and its subsidiaries (the “**Group**”) the following services:
- (i) the provision of deposit services, inter alia, demand deposit, saving deposit, notice deposit and agreed deposit services, by the Finance Company to member(s) of the Group (the “**Deposit Services**”); and
- (ii) the provision of guarantee services and the granting of loans by the Finance Company to member(s) of the Group (the “**Loan and Guarantee Services**”)

for the term commencing from the date of the approval of the shareholders of the Company (excluding CECEP (HK) and its associates) of the Financial Services Agreement or 1 May 2016, whichever is later (the “**Effective Date**”), to 31 December 2018, a copy of which is produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose, and the transactions thereunder be and are hereby confirmed, approved and ratified, and any one director of the Company be and is hereby authorised to take such actions and execute such documents (to be countersigned by another director of the Company if the common seal of the Company is required to be affixed thereto) as he may consider necessary or desirable to carry out and complete the transactions thereunder;

- (b) the proposed aggregate annual caps for the service fees payable (including interests payable, where applicable) by the Group to the Finance Company in relation to the Loan and Guarantee Services under the Financial Services Agreement for each of the three periods: (1) from the

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Effective Date to 31 December 2016; (2) from 1 January 2017 to 31 December 2017; and (3) from 1 January 2018 to 31 December 2018 are RMB1,070,000,000, RMB1,070,000,000 and RMB1,070,000,000, respectively, be and are hereby approved; and

- (c) the proposed maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Group with the Finance Company in relation to the Deposit Services under the Financial Services Agreement for each of the three periods: (1) from the Effective Date to 31 December 2016; (2) from 1 January 2017 to 31 December 2017; and (3) from 1 January 2018 to 31 December 2018 are RMB250,000,000, RMB250,000,000 and RMB250,000,000, respectively, be and are hereby approved.”

Yours faithfully,

For and on behalf of

**China Ground Source Energy Industry Group Limited**

**Liu Dajun**

*Joint Chairman & Executive Director*

Hong Kong, 13 May 2016

\* *For identification purposes only*

*As at the date of this notice, the Board comprises Mr. Liu Dajun, Mr. Xu Shengheng, Ms. Chan Wai Kay, Katherine and Mr. Zang Yiran as executive Directors, Mr. Zhao Youmin and Mr. Daiqi as non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng and Mr. Zhang Honghai as independent non-executive Directors.*

*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, in the event of a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the EGM and in such event, the form of proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from Friday, 27 May 2016 to Monday, 30 May 2016, both days inclusive, during which period no transfer of shares of the Company can be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 26 May 2016.